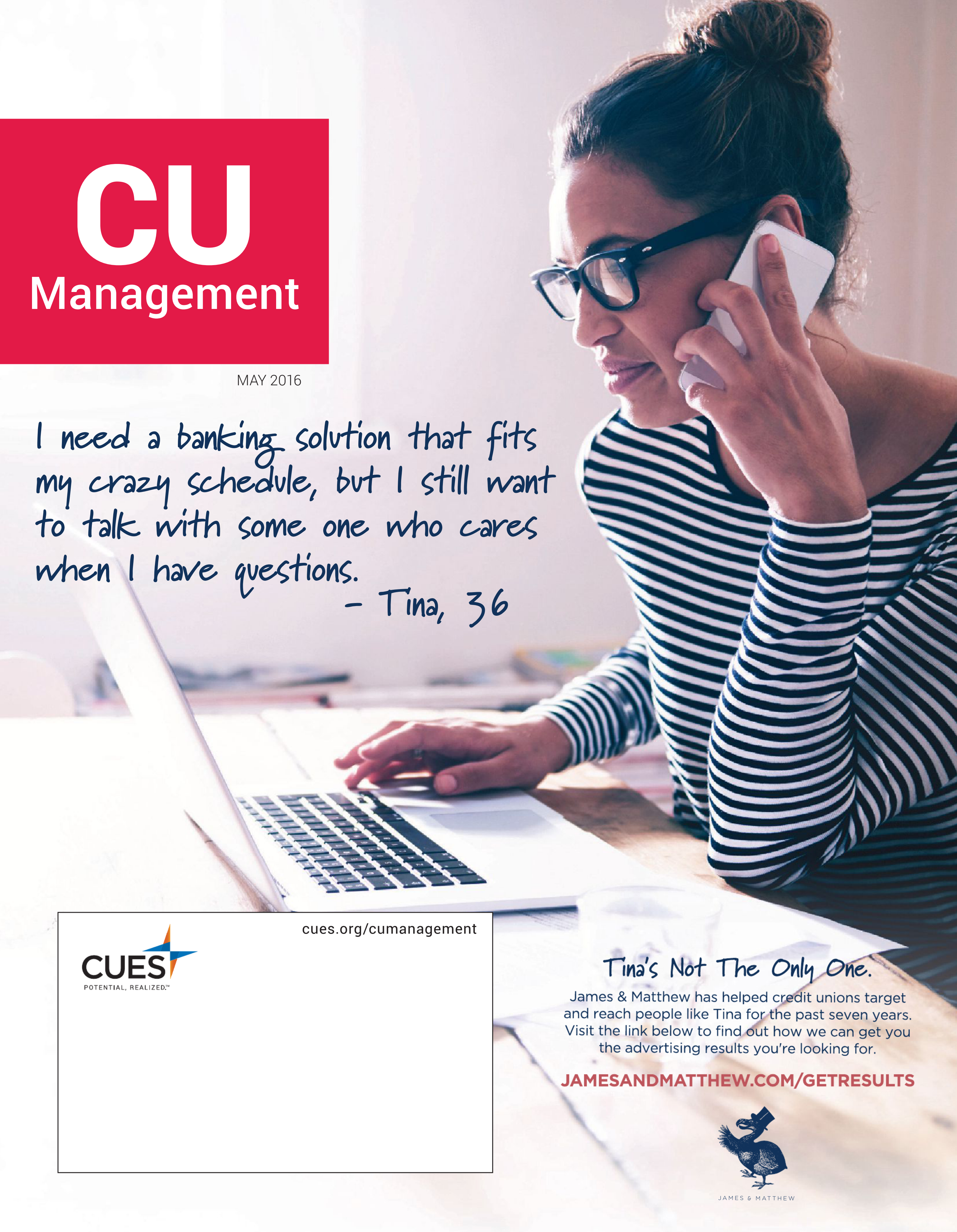
CU Management

MAY 2016



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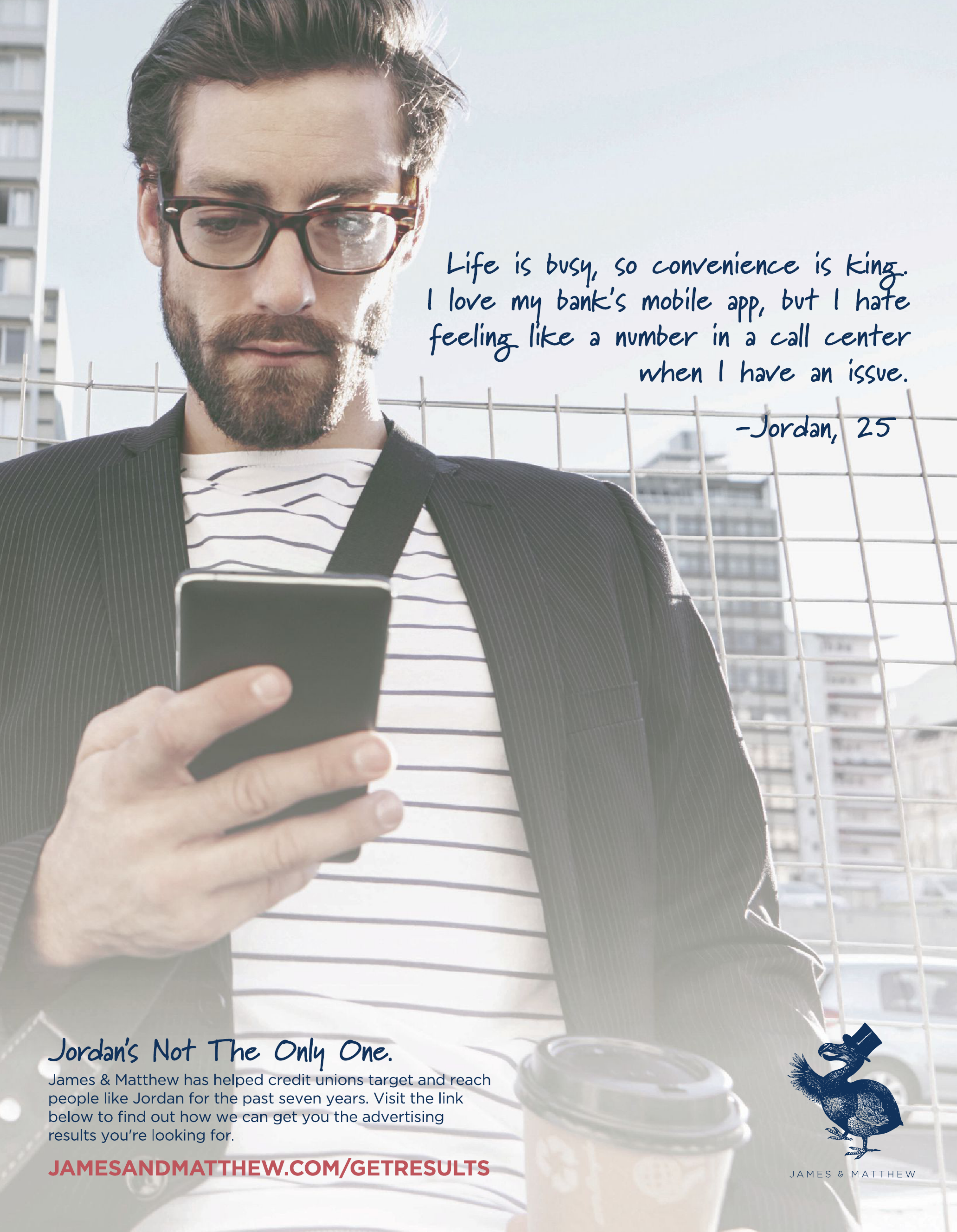
Life is busy, so convenience is king. I love my bank's mobile app, but I hate feeling like a number in a call center when I have an issue.
–Jordan, 25
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Marketing with Mobile

How credit unions are getting their messages into the hands of members everywhere.

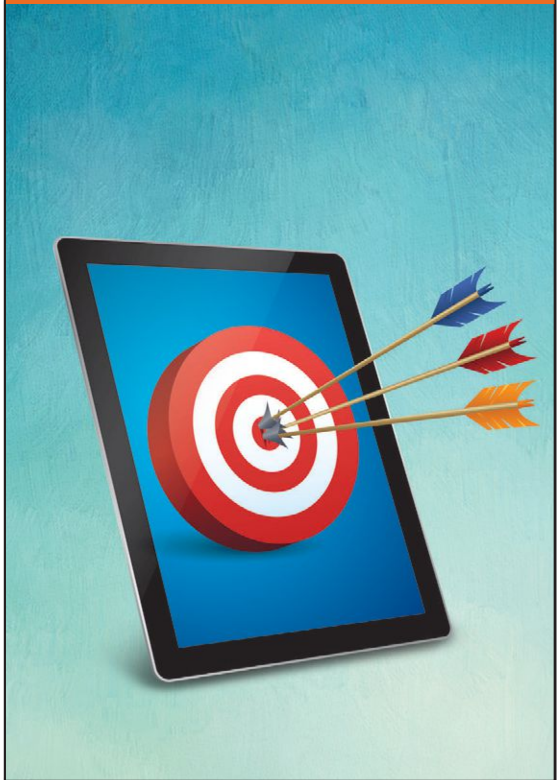
Mergers
Delivering on their promise

Business Lending
Defining your strategy & hiring the right people

Millennials
Is your credit union prepared to serve them?


VISA
Signature

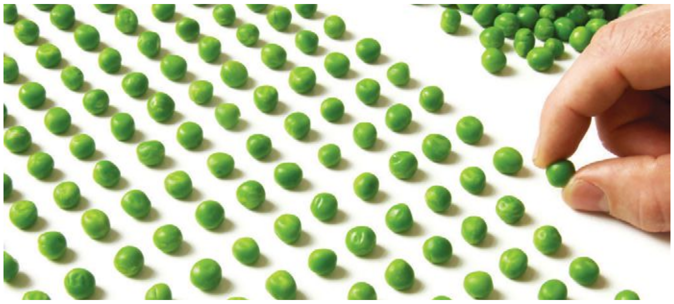
CU Management



MAY 2016 vol. 39 issue 5

CUES is a Madison, Wis.-based, independent, not-for-profit, international membership association for credit union executives. Our mission is to educate and develop credit union CEOs, directors and future leaders.

MAY 2016 vol. 39 issue 5



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WEB-ONLY BONUS

From This Issue

4 Ways to Embrace Millennials

(bonus from "Millennials Usher in Opportunity" p. 10)

Take advantage of the opportunity they present.

cues.org/0416fourways

Why Selling is Serving

(bonus from "Setting the Sales Dial" p. 14)

Three distinct member interaction models meet unique needs—and spur growth and loyalty.

cues.org/0416sellserve

Pending MBL Rule Changes

(bonus from "Commercial Real Estate Lending" p. 40)

CUs will be more able to compete but still need to move with caution.

cues.org/0416mblrulechanges

App-Only Content

Energize Your Workforce

10 ways leaders can take employees beyond engagement.

Download the myCUES App (*cues.org/mycues*) to read this article under "Spotlight."

Online-Only Columns

Loan Zone: Self-Serve Loan Modifications

Giving members the ability to consider the options on their own can build their trust and the CU's bottom line.

cues.org/0416loanzone

Tech Time: Cybersecurity Assessment Tool

FFIEC's 'CAT' helps CUs examine their security levels and vulnerability to cyberthreats.

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Gearing up for a Happy Ending

Growing up, I watched all the television I could on the four stations we received with the help of a tall antenna that stood next to our two-story brick farm house. Through all the sitcoms, old movies and soap operas, it seemed there was always a young woman falling for a guy who, she would lament, "doesn't even know I'm alive."

This was at the beginning of the show, of course. By the end, her once-invisible charms were revealed. And nine times out of 10, it turned out they were a perfect match. Roll the credits on a happy ending!

This same theme is playing out right now between credit unions and millennial consumers. CUs very much want to get Gen Y's attention, but these young adults don't even know credit unions exist, let alone that they match so well with what millennials seek from companies they do business with.

Whether credit unions achieve the happy ending they're hoping for depends on how they play the next few scenes, according to Jim Kasch, founder of Canidae Consulting (*www.canidaeconsulting.com*) and Member Intelligence Group (*www.memberintelligencegroup.com*).

In "Millennials Usher in Opportunity," p. 10, he writes, "This is a seminal moment and CUs are poised to thrive. All we need to do as an industry is change everything we've always done."

While that may sound like a tall order, it doesn't seem insurmountable if you take a look at the tactics he suggests, including: "Stress our cooperative nature. Simplify your products and pricing. Use non-traditional business development to raise awareness," with excellent examples from $145 million St. Paul Federal Credit Union (*www.stpaulfcu.org*), St. Paul, Minn., and $687 million Listerhill Credit Union (*www.listerhill.com*), Muscle Shoals, Ala.

Another idea from 2015 CEO/Executive Team Network (*cues.org/cnet*) speaker Kelly McDonald, author of *Crafting the Customer Experience for People not Like You:* Employ people who represent your target market, even if it means allowing staff to have visible tattoos, she said, noting that 40 percent of people ages 18-35 have four or more.

Just as simple: Get your millennial staff involved in your millennial strategy.

And speaking of Gen Y employees, I bet you have a rising star or two in the ranks. Be sure to recognize them and help them reach for more by nominating them for CUES Next Top Credit Union Exec by May 9. Applicants will compete for a $20,000 educational prize that includes attendance at two segments of CUES' CEO Institute. Learn more on p. 48.

Mary Arnold

Mary Auestad Arnold
Editor and Publisher


PROTECTING MORE LIVES STARTS WITH PROTECTING MORE LOANS
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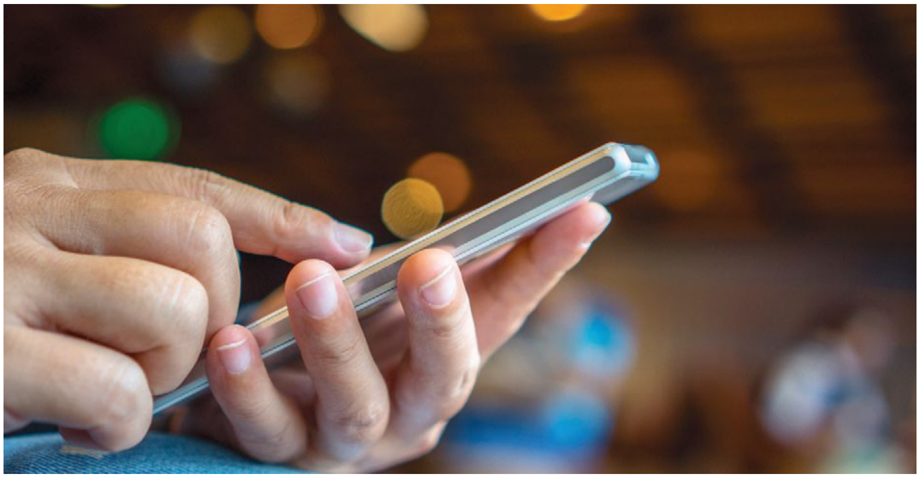

New Members in Minutes

A new mobile app gives consumers the opportunity to become members of USALLIANCE Financial (*www.usalliance.org*) and fund their new accounts in just minutes, transforming what has traditionally been a cumbersome process.

The enrollment option, which is included as a feature of the credit union's Apple and Android standard apps, guides prospective members to scan the barcode of their driver's license. That simple step serves to prepopulate the enrollment application, reduces keystrokes, aids in verifying their identity, and provides key information for qualifying them for membership, notes CUES member Kristi Kenworthy, AVP/e-commerce for the $1 billion+ Rye, N.Y., credit union serving 80,000 members throughout the Northeast.

The mobile enrollment process also employs GPS to compare applicants' physical locations to the address on their driver's license, adding another layer of security. The native app, developed in partnership with GRO Solutions (*www.grobanking.com*), Atlanta, offers "a slick user experience with a focus on making it easy, quick, and secure," Kenworthy says.

The onboarding app is also installed on iPads used in new member enrollment at USALLIANCE Financial's 22 branches, which creates "an opportunity for employees to provide a better member experience," says VP/Marketing Tori Burton, also a CUES member. "They tell new members, 'We can open your account in less than three minutes,' and they also let members know the process is so intuitive they can open additional accounts in the future from their phones."

Since this new enrollment process was introduced in early 2015, the credit union has seen a 50/50 ratio in usage between the mobile and in-branch account applications. The new app is credited with reducing the abandonment rate in the self-service enrollment process from 80 percent to 35 percent, Kenworthy notes. (Read more about "Online Account Opening Abandonment" at *cues.org/0216abandon*.)

After enrollment, new members' contact information is passed along automatically to a dedicated outreach team who follow up to ask about their experience in joining the credit union and to provide additional offers.

Providing a quick and simple path to enroll by smartphone is in line with USALLIANCE Financial's "mobile-first" strategy. "We feel that mobile has become the first and, for some, the only touchpoint with their credit union," Kenworthy says. "Digital services are a key channel to reduce friction and maintain a high-quality member experience."

"Employees who see that their daily jobs have mission and purpose go the extra mile. Purpose-fueled companies grow faster, have more engaged workplaces, enjoy higher profits and productivity, and have far less turnover."

Carmine Gallo, speaker, communication coach and *Forbes* contributor, in "The Best Perk at America's Best Employers Is the One You Don't See": *http://tinyurl.com/bestperk.*

Creative Forecasting

Creative types who've had their ideas deep-sixed by managers will probably not be surprised by Stanford research indicating managers are not the best judges of good ideas. But neither are creatives good judges of their own proposals.

According to Justin Berg, a Stanford Graduate School of Business professor, the best judges are the creator's peers, because they've spent time generating their own ideas about the situation.

"Managers Are Not Always the Best Judge of Creative Ideas" (*http://tinyurl.com/judgingideas*) talks about a large study Berg conducted on creative forecasting (or predicting the success of new ideas) in the circus arts industry. In the study, he found creators overestimated how well their own videos would do with the audience, but were more accurate judges of their peers' videos than managers.

"Managers tended to undervalue novel ideas in favor of conventional performances. Creators were better at predicting these novel hits," even though most of the managers were former creators.

"One might think that if you're a successful creator, you have good taste, and when you get promoted to a manager role, it stays with you," Berg says in the article. "But this research suggests that the creator role may promote good taste, while the manager role may undermine it."

Stanford Graduate School of Business is host to CUES' Strategic Innovation Institute™ II (cues.org/sii-2).

Letters to the Editor

Shared Compliance

Oh my, this ("On Compliance: Six CUs Share Risk Officer," *cues.org/0116oncompliance*) is an awesome and much needed compliance management business model for groups of smaller to mid-sized credit unions. So much valuable talent is being spent on non-value-added activities due to regulations.

Donnie Price
Principal/Founder
Omaha Associates
(*www.omahaassociates.com*)
Omaha, Neb.

Auto Lending

"Auto Lending Mistakes to Avoid" (*cues.org/0216mistakes*) offers some great tips on fine-tuning the auto lending process. Even if it's a product you think you know, there are ways to improve it for the member!

Madeline Anderson-Balmer
VP/Director/Digital Marketing
McDougall & Duval
(*www.mcdougallduval.com*)
Amesbury, Mass.

Mobile Branch

"This. Is. Awesome. Congrats *@johnsoda123* and *@InnovationCU* on taking #innovation to a new level" (a tweet about "Mobile Branch Does Double Duty," *cues.org/0216mobilecenter*).

Chad Huseby
Branch Manager
$14 billion Servus Credit Union
(*www.servus.ca*)
Edmonton, Alberta

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Millennials Usher in Opportunity

This large, important group dislikes and distrusts big banks. Are you ready to serve them?

By Jim Kasch

Over the past couple years I've had the privilege of speaking to credit union leaders across the United States. At the beginning of each session, I typically ask for a show of hands from credit unions that have too many young members. Predictably, this elicits laughter.

But there's nothing funny about the future if we don't do a better job attracting, serving, and retaining younger members. The statistics are staggering: The average age of Americans is less than 37, fully a decade younger than the average CU member. Millennials are the largest generation in history and they represent one in four Americans (80 million people!). They stand to inherit more than $30 trillion over the next couple of decades. More than half of American workers will be in this age group in only three years.

More important than statistics are the social implications. Millennials are the most skeptical of today's consumers, and display little loyalty to companies. At the same time, they are the most optimistic generation regarding their own future. They've redefined "success" as holistic balance in their lives. They emphasize happiness over money, quality over quantity. They've delayed marriage and despise debt. They've delayed major purchases like homes and vehicles, but they are unfathomably burdened by student loans.

Still, they are consumers who require the ability to manage their finances, so what do they look for in a financial institution? Unsurprisingly, they look for the same things they do in other companies. They prefer local institutions over national institutions. They expect transparency–in pricing, terms and conditions. They demand to be treated as individuals. And of course they want unencumbered access to their money when and where they need it.

The good news for credit unions? Millennials severely distrust and dislike large banks. In fact, recent surveys have shown the four largest banks are all ranked in the top ten least favorite brands among millennials. They are disgusted by the perception of cronyism, and they feel the mega-banks are profit hungry and self-interested.

While millennials do value the large banks for their convenience and technology, it is really a love-hate relationship, and this group needs to be educated on how shared branching and ATM networks provide the same or better convenience.

The Millennial Disruption Index (*www.millennialdisruptionindex.com*) predicts that the financial services industry will experience the most seismic shifts of any industry as a result of millennials. The authors of that study proposed that *community banks* with local control

and personalized service stand to gain the most with this shift. Why not CUs?

That's the bad news: Millennials are generally unaware of CUs, and they are certainly uninformed about CUs' corporate structure. When millennial consumers become familiar with CUs, they will gravitate to us. Our cooperative business model resonates with them. Millennials should be carrying the CU banner.

This is a seminal moment and CUs are poised to thrive. All we need to do as an industry is change everything we've always done.

Serving Millennials

When I work with CUs to develop a formal millennial strategy, I stress the following:

Technology is important, but it's not the whole story. Sure, millennials expect instant access to their money, with tools and resources that help them manage it wisely. Millennials aren't unique in that way–who doesn't want that? The credit union must be aware of the features available in the marketplace, and how well their tools measure up. Fortunately, the cost of these technologies has come down to the point where even small credit unions can usually afford to have them available for their members. Be aware of what your millennial members expect and do your best to provide it.

A presence on social media will not solve your problem of reaching this group, and don't fret over a return on investment for Facebook, Twitter and other social media outlets. They aren't promotional tools; they're communication tools. Think of them as a next-generation phone system.

Don't ignore your branches. Believe it or not, millennials visit physical locations more often than older members, according to the *2012 Consumer Trends Survey* from Fiserv (*www.fiserv.com*), a CUES Supplier member based in Brookfield, Wis., and research from *findabetterbank.com*.

Millennials value personal connections and like consulting with professionals before making decisions. They consistently cite convenient branches as the most important factor in selecting an institution. They want to be able to visit your branch, but not be forced to do so.

Stress our cooperative nature. Millennials will never learn about our cooperative structure if we don't tell them. I frequently tell the story of my airplane conversation with a millennial couple who asked me why we are called credit unions if they aren't required to borrow ("credit") and if they aren't required to pay monthly dues to belong ("union"). When I told them CUs were not-for-profit financial cooperatives, their eyes lit up. They exclaimed, "Why don't you call yourselves *that*?!"

Anytime you are promoting the CU in any way, stress the elements of the cooperative. We save together; we borrow together. We are the only financial institution headquartered in town. We are not-for-profit. We're democratically controlled. Educate your members; remind your employees.

Use non-traditional business development to raise awareness. Chris Petersen, executive vice president of $145 million St. Paul Federal Credit Union (*www.stpaulfcu.org*), St. Paul, Minn., explains his CU's non-traditional approach to business development as it pertains to millennials: "The city of St. Paul has a thriving fine arts community, which obviously includes many millennials. We've started to raise our visibility [with them] by partnering with organizations that promote local artists."

The sponsorship is not overtly promotional. "We're conscious of what appeals to millennials," Petersen says. "Most of them don't realize that credit unions are cooperatives, just like these arts organizations. They inherently understand the concept of coming together for mutual benefits."

The campaign is very passive, with the cooperative nature of the CU presented in every advertisement created for that market. For instance, the CU's ad for the semi-annual St. Paul Art Walk just says, "We're a cooperative, too." Even the CU's membership and loan promotional pieces speak to these ideas.

Another example of successful non-traditional business development comes from Listerhill Credit Union.

"Our credit union is chartered to serve the University of North Alabama, which obviously has a large millennial population," says Chris Anderson, marketing director for the $687 million CU in Muscle Shoals, Ala. "Each month we publish a lifestyle magazine called *The Set* that is targeted to the student population." The roughly 32-page publication features articles and stories contributed by student volunteers on topics that cover all aspects of student life.

"We've hired an editor and we cover the costs associated with the publication," he explains. "Our business development coordinators deliver stacks of the magazines to local businesses that distribute it for free."

Listerhill FCU, which markets its on-campus branch and services to students under the private label "The Hill" (*www.listerhill.com/thehill*), is the only true advertiser in the publication, and Anderson underscores the importance of remaining a silent voice when it comes to editorials.

"Obviously, we review the content to ensure it's appropriate, but we don't influence content in any way. That would be a major turn-off for the students."

Simplify your products and pricing. Do you really need five different types of checking accounts? Can you create a single checking account that has all the greatest features to appeal to the whole market? Do you require things like "auto-pay" to earn a quarter point discount on loan rates? Why create so many hoops to jump through just to get a good deal? Eliminate the asterisk from as much of your advertising as possible because fine print is an instant red flag for millennials. To them, the asterisk says "Here's how we're screwing you."

It's a misnomer that millennials won't pay fees. However, they do have a problem being nickeled-and-dimed over every little thing. Review your schedule of fees for those you can reduce or eliminate, such as those you charge but frequently refund or those you rarely charge at all. Why not just eliminate and then promote that you have taken fees away? "We've lowered fees *again*!"

> This is a seminal moment and CUs are poised to thrive. All we need to do as an industry is change everything we've always done.

Use objective-based sales techniques. CUs need to build their sales with the objective of meeting the needs of millennial members—not the objective of selling their own products and services. Indeed, avoid traditional sales methods if you want to attract millennials. They are skeptical of companies pushing products and services, even if we call them "solutions."

Instead, engage in conversation with millennials and educate them to empower wise financial choices. As these members realize your intention is to only share your deep knowledge about financial products and to educate them on potential outcomes based on their decisions, they will come to trust you as an objective advisor.

Objective-based sales programs have a further benefit in that credit union employees embrace them. Where most sales programs are built from the employee outward to the member, objective-based programs are built from the member inward to the credit union.

Even the most seasoned CU employee gets excited to share knowledge and help the member make good choices. Present sales goals to the employee around how much money you saved the member by refinancing their car loan, not by how much in loan balances the CU added to the books. Share stories across your team of how a member was saved thousands of dollars because he had purchased a gap insurance policy from the credit union. Embrace our nature as nurturers, and it all becomes more effective and more fun.

Write it down. CUES member John Janclaes, CEO of $1.4 billion Partners Federal Credit Union (*www.partnersfcu.org*), Burbank, Calif., and author of the book *Doing What Matters*, stresses the importance of crafting and adhering to a formal written plan. "Organizations that take the time to prepare a written plan will find more success.

"Doing the work of creating the written plan engages a different level of thinking than sharing ideas verbally, and requires management to think more carefully about what actually needs to be done," Janclaes says. "The written plan helps communicate their thinking more clearly, and the plan enables managers to productively create tactics to execute those strategies at all levels of the organization."

CUs have an unprecedented opportunity to redefine themselves to younger consumers while embracing their incredible legacy as consumer advocates. We can't miss the chance because the future is here.

Jim Kasch *is founder of Canidae Consulting (*www.canidaeconsulting.com*) and Member Intelligence Group (*www.memberintelligencegroup.com*). Reach him at* jkasch@canidaeconsulting.com.

Resources

Read bonus coverage with four more considerations for reaching millennials at *cues.org/0416fourways*. Also read "Mortgages for Millennials" at *cues.org/1215mortgages*; "Loan Zone: Make Mortgage Education 'Hip'" at *cues.org/1015loanzone;* "Reaching Millennials" at cues.org/081915millennials; and "Millennials Matter" at *cues.org/0615millennials.*

Read about a credit union with a card control app at *cues.org/0915cardswitch.*

Kasch also wrote about member surveys at *cues.org/0316rightquestions.*

Who will be the 2016 CUES Next Top Credit Union Exec? Find out more about this challenge for CU professionals, age 35 and under who have not yet reached the CEO level, at *www.ntcue.com* and on p. 48.

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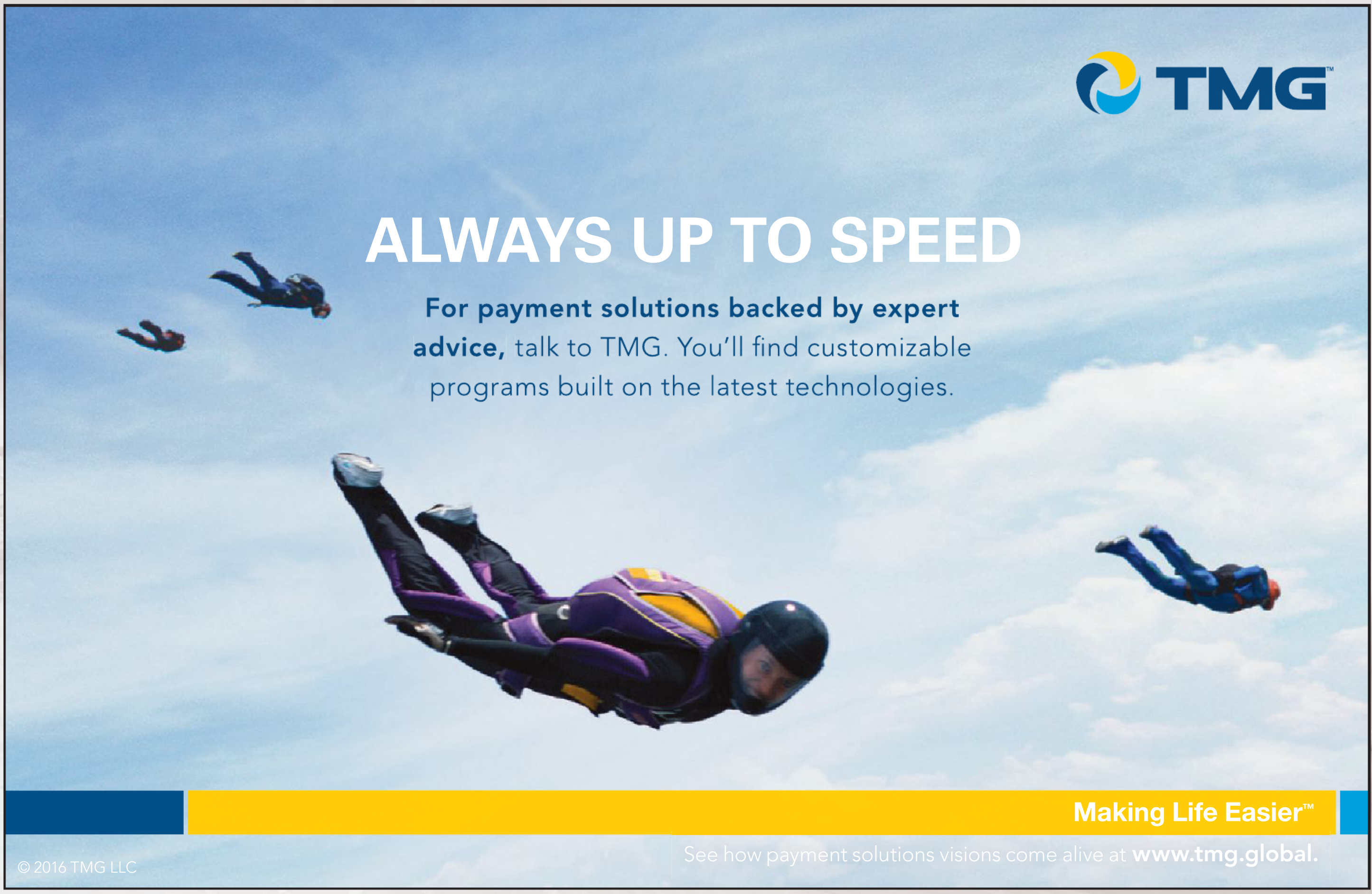

Setting the Sales Dial

Three distinct member interaction models meet unique needs—and spur growth and loyalty.

By Stephanie Schwenn Sebring

A credit union is not an ordinary financial concern, seeking to enrich its members at the expense of the general public. Neither is it a loan company, seeking to make a profit at the expense of the unfortunates. ...The credit union is nothing of the kind; it is the expression in the field of economics of a high social ideal. —Alphonse Desjardins

Innovators like Rory Rowland (*www.roryrowland.com*) and Rex Johnson (*www.rexcuadvice.com*) prompted early discussion on how (or if) sales could intertwine with the member advocacy ideals Desjardins presented to North American credit unions in 1900.

Indeed, the "value of sales" and its role in credit union member service has been an impassioned, sometimes fiery debate for a long time. Still, questions remain. For example, how can a well-designed business model be used to treat members uniquely? What proportion of the business model should focus on sales vs. service?

To explore the issue more thoroughly, three CUs shared their business models. Examining each, including their differences and similarities, and by taking a deep look at their sales and service elements, CU leaders can evaluate and reflect on their own way of doing business.

Service First: State ECU

Staff are not incented to sell, only to serve. In fact, the CU chooses not to use the word "sales" in any interaction or staff training. Staff are consultants, developed internally and promoted only from within.

A credit union whose mission, "Do the right thing," is as simple as it is powerful, State Employees' Credit Union (*www.ncsecu.org*), Raleigh, N.C., has put members at the forefront of every decision and interaction since 1937.

"Staff easily embraces our vision because it is so completely member-centric," says CUES member Sue Douglas, CUDE, chief operations officer. "It's helping members achieve their financial goals—a service mentality that has helped us become the second largest credit union in the world" at $32 billion in assets.

Instead of incenting staff for sales, State ECU's growth is accomplished without commissions or individual goals. Employees' paychecks never depend on production. The critical component is loyalty: in the staff the CU hires and the members they serve.

"Understanding that everything we do impacts someone else's life is critical to our culture and success," says EVP/Organizational Development Leigh Brady, a CUES member. "We never want an employee to be in a situation where making a sale is more important than serving the member."

Douglas likens it to staff having a "service heart"—or the desire to come to work every day to help somebody. Not only does it bolster the CU's service reputation, but it also encourages like-minded employees to "stay for the culture." Brady reports that the CU's annual turnover rate is 9.3 percent, compared with a 12 percent industry average listed in the Credit Union National Association's 2013-2014 Turnover and Staffing Report (*http://tinyurl.com/1314cunastaffing*).

The CU's commitment to promoting from within cements loyalty and provides continuity in service. New employees are hired solely for entry-level positions—no exceptions. Even managers start as member service representatives or loan officers.

"As leaders, our job is to nurture staff throughout their careers, so we have a fresh supply of talent ready to move into new positions," maintains Brady. She believes some of the CU's greatest success is due to this core value, that it removes some of the ruthlessness found in business. There's even more history behind it: The CU's current CEO started in an entry level role some 40 years ago.

Training fuels the staffing pipeline. Staff education is a serious undertaking at State ECU. New employees must complete a 15-module testing program to enhance their ability to consult with members. After passing with a score of at least 90 percent, employees receive a $2,000 raise. Staff without a college degree can obtain a two-year degree with free tuition (including books) through a partnership between the credit union and the North Carolina Community College system. Some go on to get a four-year business (or master's) degree with up to $2,500 in annual tuition reimbursement.

Staff also receives up to $1,800 per certification annually for obtaining professional accreditations, including tax, insurance, trust and investment certifications, and for keeping certifications current with continuing education. To date, 73 percent of staff have earned at least a two-year college degree; approximately 2,000 are licensed insurance professionals; and 2,800 are certified tax preparers.

Transparency is a motivator. Not surprisingly, transparency between staff and management is the real deal. Staff are encouraged to review financials and reports. Likewise, employees provide questions, solicited and answered by senior leaders. Local branch advisory boards composed of volunteer members also meet quarterly, minutes are read by management and any questions are answered and included in a monthly summary report shared with the board.

"Our culture thrives on communication," says Brady. "Transparency drives accountability and serves as a motivator. It's easy for staff to see where we are as an organization. Naturally, member-facing employees don't wish to see their branch or department lagging behind in organizational goals."

Growth whether in loans, deposits or other services—is never the emphasis. "It's what happens because of who we are and how we fulfill our service mission," says Douglas. "Nor do we get caught up in what everybody is doing." For example, the CU offers all members the same checking product, with a $1/month maintenance fee. There are no tiered-rate savings products. And, there is no risk-based lending.

What about cross-selling? It's not in our culture, explains Brady. "If an employee helps a member with a service and that encounter leads to a discussion of other products, the employee will enumerate the options. But it is considered an educational opportunity, not the means to make a sale. We do not track this per employee or branch. We offer no incentives; we just expect employees to "Do the right thing" for the member. The non-sales and member-education approach ties back to marketing, where word-of-mouth advertising is the dominant strategy.

All of this works beautifully for State ECU. Growth is healthy, and there has never been a year of negative earnings. *Consumer Reports* magazine has also recognized the CU for its service nationally (ranking it in the 94th percentile of satisfaction from 49,188 survey respondents in *CR*'s 2014 ranking of financial institutions (*http://tinyurl.com/crbestbank*.)

Mission of Speed: Space Coast Credit Union

Members' time is the chief commodity. The CU relies on a commissioned, focused sales staff to grow the business, with members guided through the journey in a matter of seconds.

> The 'value of sales' and its role in credit union member service has been an empassioned and sometimes fiery debate for a long time.

For $3 billion Space Coast Credit Union (*www.sccu.com*), Melbourne, Fla., sales and speed are the non-negotiables. CUES member Doug Samuels, president/CEO, also believes they are the equivalent of service excellence.

"Sales is about intently listening, assessing, and matching member needs to the right product. It's meeting those needs intuitively, quickly and efficiently," says Samuels. "Friendly is important, but we're quick and unapologetically focused on a dynamic sales culture."

The evolution to a sales focus at Space Coast CU began in the mid-'90s. "Members were waiting up to an hour to speak with an employee," reflects Samuels. "Obviously, no one can hope to provide good service with that amount of waiting. It also made us realize that we're not a destination location, only a stop along the way."

After much heart-to-heart discussion, the CU implemented its "express sales model" in 1997. "We researched practices, methodologies and technologies to build our process as close to our desired model with the tools available," explains Samuels.

"Today, our goal is to serve the member without taking too much of their time. We channel *all sales*, from debit and credit cards to savings, CDs, consumer loans and mortgages, through the express model."

It's a finely-tuned machine. Whether by phone, via online chat or in a branch, an employee initially screens the member request, directing leads to the next available sales agent. If in the branch, the member speaks to the agent by phone. If the member is online or on the phone, they are similarly connected to the next agent.

The wait time today? Seconds.

Space Coast CU's sales staff handle all leads except investment services. So that means they work on new memberships, savings accounts, CDs, checking, debit and Visa cards, and loans. Once the sales staff member determines the need, makes a recommendation and/or "closes" the sale, it goes on to underwriting or support staff who finish up the "paperwork," electronically about 50 percent of the time.

The impact on staffing. It's no coincidence the sales culture has transformed the CU's staffing model. "Before, sales was somewhat of an afterthought," says Samuels. "Now, it's front and center. Because of our express sales model, we can staff 60-plus branches with fewer people, resulting in a much lower compensation expense, about 50 percent less per branch than our competitors."

Branch staff and MSRs are paid competitively compared to the market, but Space Coast CU's commissioned sales staff can earn—depending on the volume—two to three times the median salary of, say, a consumer loan officer in Melbourne, Fla, which *www.salary.com* reports as being just over $36,000 annually.

"We can train anyone on the financial products," continues Samuels. "But the staff we hire must possess the internal desire to sell—traits that can't be taught." Staff also need to be self-motivated, organized, and able to track leads, follow up and close the sale.

The word "sales" doesn't have to have a negative connotation, stresses Samuels. It will only seem pushy if staff are not meeting member needs. He notes that staff are motivated to sell, but also have an obsession to serve. To date, he cannot recall a single complaint in how his sales agents conduct themselves or serve members.

"It's a result of effective selling: asking the right questions, not reciting a menu of options; it's listening and matching the product to the need." It also means understanding the changing definitions of convenience and value, so the products offered are a true benefit to the member.

Sales production is huge. The express model has wrought significant increases to production, especially for loans. In 1997, the CU was netting $40 to $50 million in mortgage and consumer loans per year; now that figure is about $1 billion. With all the craziness in the market, Samuels says another way to think about the growth is that monthly the CU used to see hundreds of units of business, and now it is more like thousands. Even with these positives, he advises not to underestimate the challenges of making a transition.

"We'd provided service a certain way for 50 years—a traditional face-to-face approach handled by one individual. Members weren't gaining the desired results. With the express sales model, they enjoy an easy journey and receive the gift of time."

Space Coast CU is staying faithful to its values. On occasion, a member may resist the express model. Samuels concludes, "While we want to serve every member, we understand we can't be everything to everyone."

Melding Sales and Service: Generations FCU

Service takes precedence; however, a formal sales approach is gaining momentum. Staff are asking relevant questions, listening, and fostering leads for new connections.

$600 million Generations Federal Credit Union (*www.mygenfcu.org*), San Antonio, is the fifth largest CU in an aggressive, fast-growing metropolitan market with more than 2.1 million residents. The CU is community-based, preserving its history of member-centric service, determined to carve a niche and grow its membership.

"The people-helping-people philosophy has always been part of our big picture," says President/CEO Steve Schipull, CCE, a CUES member. "Our culture is steeped in service and isn't just about selling products. It's connecting with members." Devotion to service has helped the CU to flourish, recording asset growth in 2014 and 2015 of 14 and 18 percent, and new member growth of 3.5 and 7.1 percent, respectively.

Responsive, friendly and dedicated. All three ideas have been mainstays in the CU's growth and how it chooses to do business. But in 2014, Schipull felt a need to do more for members and staff—to strengthen the CU's *ability* to serve. "When you're growing rapidly, there comes a time for more structure to help staff focus on the member relationship," he says.

Schipull was drawn to the practices of sales strategist Michael Neill, CSE, of MNA Consulting (*www.michaelneill.com*), Franklin, Tenn., and co-creator with CUES of the ServiStar®: Member Experience Builder program (*cues.org/servistar*). Schipull enrolled his CU in ServiStar in 2015 to augment staff skills and provide a plan to deepen member connections. By navigating five training modules, some offered online and others in person, employees learned to ask open-ended questions and honed their listening skills.

"At the end of the day, we want staff to cultivate a long-term member from *every* transaction, and to grow the franchise together." Schipull also wants staff to ask, "How can we do it better?" and ensure every member feels good after every transaction.

Lofty goals? Perhaps. But Schipull believes it can happen with patience and perseverance. "We're teaching staff to drill down to see the link between the sender and receiver of any given message. It's the empathetic approach to serving and sales. The relationship becomes stronger with this type of active listening, in addition to questioning, paraphrasing, and matching needs to products."

While staff are not incented to sell, individual goals are tracked at a granular level. Here, the CU can monitor success or provide additional training or coaching. There is a lot of group discussion. Staff are encouraged to speak up, especially if they have a passion or opinion on something. This regular interaction lets staff relate to each other and as a team. The CU also reinforces positive outcomes by highlighting monthly success stories in its board newsletter as well as what employees do daily to live out the CU's cultural values.

"You also have to hire the right people who share your values." Schipull allows that if you don't, staff may not give it their best effort. His CU screens potential employees using The Predictive Index (*www.predictiveindex.com*) for traits it seeks by position. "Attitude is critical, and it's something you cannot teach."

Is it working? Feedback from a survey of 500 member-shoppers shows that it is. Members scored the CU's new approach to service an average of 4.5 out of 5.

"We've solidified our consultative approach," says Schipull. "We better understand which products make the most sense for members. We've improved our ability to listen, ask questions and be perceptive. And, we're better consultants and interviewers."

Schipull recommends that CU execs learn and draw from sales and service innovators. He likes to follow the success of Southwest Airlines: "They've introduced fun into the workplace; they know how to attract and retain staff who are committed to their values. Like Southwest, the deeper the relationships that we, as a credit union, can build, the better value members will see in our products."

With 25 years of marketing and communications experience, Stephanie Schwenn Sebring *established and managed the marketing departments for three CUs. As owner of Fab Prose & Professional Writing, her focus is on assisting CUs and industry suppliers with their communications needs.*

Resources

Powering your brand with cultural transformation will be a key topic at CUES School of Strategic Marketing™ I (*cues.org/sosm*), slated for July 18-20 in Seattle. CUES School of Strategic Marketing™ II (*cues.org/sosm2*) will dig even deeper, July 21-22, also in Seattle.

On May 5, Mike Neill, CSE, founder of MNA, Inc., and creator of ServiStar® Member Experience Builder, along with Tansley Stearns, chief impact officer at Filene Research Institute will lead a webinar called "Unlock the Secrets to Creating & Dominating Member Experience." Sign up at *cues.org/unlock*.

Learn more about ServiStar: Member Experience Builder's consultative sales process, offered by CUES and MNA Consulting, at *cues.org/servistar.*

Neill will also co-present CUES School of Member Experience (*cues.org/some*), slated for Sept. 26-27 in Charleston, S.C.

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Marketing With Mobile

How credit unions are getting their messages into the hands of members everywhere.

By Jamie Swedberg

There are two sides to every coin. What makes credit unions great—a focus on member service that leads to very low attrition rates—can also make some CUs a little lackadaisical on the marketing front. Many credit unions stick with outdoor, broadcast, and other traditional marketing avenues that have worked well for them in the past. But the marketing environment has changed drastically, thanks to technological and cultural shifts.

Right now, there are three extremely compelling reasons for credit unions to pay attention to digital marketing, and mobile-device marketing in particular.

First, mobile devices are permanently glued to people's hands.

"There are over 150 million smartphones activated every day," says Louise Nestor, director of marketing at $450 million/45,000-member Connex Credit Union (*www.connexcu.org*), North Haven, Conn. "People are on their phones all the time, especially the millennials, who are more attached to their mobile devices than anybody else. People use them because they need to get information quickly and immediately. They want convenience, and things that are simple and easy to use."

Second, mobile marketing is incredibly trackable. Broadcast and many other marketing methods can be difficult to track, but when messages are shared via mobile devices, you can trace the entire process: number of impressions, number of clicks, number of applications filled out, number of loans originated.

"You're able to show a really direct ROI, and that's why we've been doing more and more and more in that space," says CUES member Cathy Graham, VP/marketing at $3.9 billion/313,000-member Desert Schools Federal Credit Union (*www.desertschools.org*), Phoenix. "It's kind of a marketer's dream."

Third, and perhaps most importantly, members are asking for it. Graham says her CU conducts regular surveys, and it found that members wanted to hear from Desert Schools FCU more digitally. It's not often a financial institution gets an invitation like that—so clearly it should be a priority.

Being Optimized

When it comes to putting mobile marketing into practice, the first thing to realize is that, increasingly, online means mobile by default.

"A lot of folks were saying they wanted to get information from Desert Schools through email," says Graham. "You think email, oh, that's my desktop. Not necessarily. I know I check my email probably fifty-fifty phone vs. desktop, just depending on where I am. We found out that when we were sending emails to our members—and this was several years ago—something like 35 percent of those were being opened on a mobile device. So whether we thought we were doing it or not, we were doing mobile marketing."

Early on, the CU's website and emails weren't responsive, so they didn't look particularly good on smartphones and tablets. But when the CU's marketers understood their missives were being read on these devices, they prioritized mobile-friendly Web design.

There's more a credit union can do to improve mobile interactions, says Mike Lawson, principal of DML Communications (*www.dmlcommunications.com*), San Diego.

Number one, he says, is to make apps as quick and easy to use as possible. The less swiping and navigating members have to do, the better.

"Design your apps with as much automation as possible," he suggests. "I know there are some things you just can't get around, but make them as streamlined as possible. Use digital signatures and try to do away with as much thumb-typing as you can."

Seek and Find

Many mobile marketing methods are extensions of online marketing in general—for example, paid search and organic search optimization. They're all the more important in the mobile realm, says Sam Kilmer, senior director of CUES Supplier member and strategic partner Cornerstone Advisors Inc. (*www.crnrstone.com*), Scottsdale, Ariz., because when members are out and about transacting business, they have their phones handy. Credit unions understand that power.

"Even if [credit unions] have not invested a lot in dedicated apps, what you'll find is that they have invested in organic, perhaps in paid search, with Google," he says.

Paid search has been extremely successful for Desert Schools FCU, which has increased its digital budget 1050 percent since 2010.

"We started with our consumer lending products, [such as] if you wanted to refinance an auto loan, if you wanted to buy a new car and get an auto loan, or if you wanted a home equity loan," says Graham. "We created some display and paid search campaigns, and then we built out the landing pages on our website and put the appropriate tracking on them."

Graham says the CU measured those campaigns and optimized them over time: Could it spend a little more money and get more results? Could it spend the same money, but tweak the wording to convert at a higher rate? It's been an excellent learning experience for the marketing campaign, and a great success for the institution. The home equity search campaign alone is delivering, in Graham's words, "1,000 percent ROI, something crazy like that." So the CU is now expanding its search campaigns to include consumer lending, first mortgages, and its financial services CUSO.

What would Graham like other credit union managers to know about mobile marketing with search engines? You don't have to be a big guy to do it, she says.

"You can control your spending," she says. "You can set daily limits. You can have a very controlled, manageable budget, even a couple thousand dollars a month, and yet still be out there when people are searching in your marketplace. You can be driving qualified leads to your website or to your branches or to your call centers. So I think it's one of the most cost-effective ways that you can be doing marketing, especially for a credit union."

Making Processes Easier

What does mobile marketing feel like from the member's point of view? If it's done correctly, it's so relevant and so helpful that it feels less intrusive than traditional marketing. You're communicating with members the way they want to be communicated with.

"The idea of relevance is really huge right now," says Graham. "We're not filling their mailbox, but when they're on their phone and they're doing a search, if somebody is in our marketplace and they search 'best auto loan rates,' they see Desert Schools FCU pop up. When we do send correspondence, they're getting an email on their phones that is responsive. They can read it, but they can also click on it and take action that's appropriate to them. That click might result in a phone call to a live person, or it might go to an application."

"The key is making mobile messages personal by taking advantage of data," says Brian Day, director of digital strategy at CUES Supplier member TMG (*www.tmg.global*), Des Moines. "The more data you have, the easier it is to ensure you are sending relevant offers and information. By looking at purchase activity and other information, you can paint a clearer picture of consumer wants and needs. Not using data to target consumers will lead to irrelevant or not timely information, which is not useful to the consumer."

Nestor says her credit union currently has a number of services and advocacy points available for members who log into online banking. But it is currently evaluating technology that may make those processes more streamlined in the near future. If members see that Connex CU is offering a great rate on a car loan and they happen to be at a dealership, the new tech will allow them to apply from their phone and potentially get on-the-spot approval.

It's all about doing business the way members want to, says Graham. "They all know

they can come into a branch. We have 47 branches, so we try to make it easy for them to do that. But we also make it easy for them to do business with us if they choose to do it on a mobile device, whether it's a smartphone or a tablet."

Social Media and Messaging

Social media is another area of the online experience that is increasingly accessed via mobile devices. No mobile campaign is complete without a social component.

"Most social networks are now mobile-first experiences," explains Virginia Scott, senior product manager at CUES Supplier member Fiserv (*www.fiserv.com*), Brookfield, Wis. "Newer platforms like Snapchat and Instagram are exclusively mobile, while the majority of Facebook and Twitter traffic now originates from mobile devices.

"Social networks are also evolving into effective and mature mobile advertising platforms for content that is relevant, engaging and shareable. Facebook and Twitter are essential platforms for search marketing, customer service and relationship building, and credit unions can use these platforms' ad targeting features to promote their brand or pitch offers."

Scott says Fiserv is seeing social marketing used for educational purposes, too, touching on basic financial literacy or explaining how a CU's products and services work.

Businesses that use social media successfully tend to use it more as an informational channel than a sales channel, says Day.

"It can be a great way to tell stories and connect to consumers in a relevant way," he says. "Videos present a nice opportunity for telling a story, but they have to grab the consumer's attention right away and they can't be very long.

"Facebook, for example, allows videos to auto-play in the news feed. It's a good idea to use big, animated text on screen so even if consumers don't open the video, they will see some of the message."

"We are all over social media," says Nestor. "A lot of our concentration has been focused on Facebook and Twitter, because right now that's where we're finding that our members—and nonmembers—spend a lot of time. We do a lot of community outreach, and we share that with the community through those channels. We do financial literacy. We educate people on different common financial terms. We do probably about 20 percent product, and the other 80 percent is community, budget tips, fun trivia, fun quizzes."

Messaging is important, but social media campaigns are at their best when they have the potential to lead directly to actions. Again, it's about making the transition as seamless as possible.

"The cool thing about social media is that you can drill down so far, you can just almost customize [your message to the member]," says Lawson. "Especially on Facebook, gosh, the customization that you can drill down is phenomenal."

For example, on Facebook a CU can target ads to a specific set of people with whom they have already established a relationship on or off Facebook. Audiences can be defined by email address, Facebook user IDs, phone numbers, names, date of birth, gender, locations, app user IDs and more.

"But then you need to seamlessly transfer stuff to the app so the member can get access super quick," says Lawson. "They can get right to the service that they want to use—an actual loan application for an auto or mortgage."

Customized messages can be delivered to the member on social media sites, or they can be sent via email or text. But as always, it's the fine points that determine whether this type of marketing is deft or ham-fisted.

"Utilizing a mix of channels to reach consumers is important," says Day. "These can include in-app notifications, text messages, emails, social media, etc. You need to be cognizant of how the message is packaged for each channel. With a text message, you've got about one sentence. Email messages can be longer. When consumers log into the mobile app, it's the perfect opportunity to include a message or an offer to get the consumer's attention. But with notifications, you also need to be sensitive to the fact consumers don't want their phones beeping and buzzing all the time. You are competing with other apps on the consumer's phone, which also may be pushing notifications. This can create clutter for the consumer."

Early in the Sales Cycle

Tim Daley, senior consultant at Cornerstone Advisors, says one of the keys to successful mobile marketing is entering the consumer's buying cycle or influence cycle at the earliest possible point.

"What I mean is, people are normally not looking for a car loan, they're looking for a car," he says. "They're not looking for a mortgage, they're looking for a house. The role of the marketer is, how do I enter the conversation with brand and lead generation at the earliest possible point of influence?"

With mobile marketing, that's easier than it used to be.

"One innovation in mobile marketing is the ability for financial institutions and merchants to use location information to give consumers contextually relevant offers or information," says Day. "For example, as a consumer is walking down the street and passes a coffee shop, the coffee shop could push the consumer a coupon or offer [through the coffee shop's app]. As a financial institution, if I see a consumer is spending time on car lots, I might push them information on auto loan rates."

But the true power of location-based marketing may lie not in transactional interactions such as coupons and offers, but in pre-transactional ones, where the credit union is able to relationship-build and teach members to expect the CU to be there when they need them.

"As far as mobile is concerned, because it's a device that is always with me, it's a way for the credit union to continue a conversation that may or may not even have started," Daley says. "If you're not coming into the branch as much as you used to, this is a way to engage on a device that's always in your pocket or purse. Now they can, for example, put a geofence around an event the credit union is sponsoring and thank you for coming. It's a nice way to continue a conversation with your membership even though they are not with you."

Geofencing is a virtual geographical barrier using GPS or radio frequency identification. Programs, such as a mobile app, can use the geofence to trigger a text message, mobile notification or email when a device enters or exits the boundaries of the geofence.

The crucial step is to then translate that relationship into something actionable, Daley says.

"If I get my members used to talking to me or getting notices from me in that fashion, the next time they go to a car dealership and I greet them with an offer, they're less likely to feel that that's creepy," he says. "We want to make sure we don't look like or feel like Big Brother, but we can still continue a conversation with our membership when we don't typically get a chance to see them."

Desert Schools FCU's Graham sees that type of interaction in her CU's near future.

"Right now with the app that we have for our mobile banking, believe it or not, that platform doesn't allow us to push out messages to our members," she says. "When someone's on their phone and they've logged into Desert Schools FCU online banking, with all the information that we know about them, we would love to be able to say, 'I can see from Cathy's debit card activity she has been going to Home Depot a lot. Maybe she's ready to do some home improvement, and we should market a home equity message to her.' Or 'She goes to Babies 'R' Us a lot, so let's talk about college planning.' I think that's going to be huge for us, because we'll know who those people are, and I think we can make those messages even more relevant."

Jamie Swedberg *is a freelance writer based in Athens, Ga.*

Resources

Read "All in for Omnichannel" at *cues.org/0416omnichannel.*

Attend CUES School of Strategic Marketing™ I (*cues.org/sosm*) and II (*cues.org/sosm2*) in Seattle this summer.

3 Lessons From Mobile Marketing

Mobile marketing offers great new ways to reach out to members. But it also offers a new lens for CU executives to look through. The same trends that make mobile a no-brainer for reinforcing the credit union's brand should inspire a rethink of the way marketing is managed as a whole.

1. Changes in member behavior should inspire changes in resource allocation.
Some CUs may not notice it much because they're growing in membership, but over time, branch traffic is declining. CUs need to re-examine the way they reach members.

Sam Kilmer, senior director at CUES Supplier member and strategic partner Cornerstone Advisors Inc. (*www.crnrstone.com*), Scottsdale, Ariz., says CUs need to shift resources away from marketing methods that require members to come to the credit union—such as in-branch signage and static web pages—and toward methods in which the credit union proactively reaches out to members.

"By going to the members, I mean reallocating resources that used to be spent on things like infrastructure, assets sitting there waiting for something, and reallocating more of those resources to mobile apps, mobile marketing, their user interface experience, their search optimization, their online mortgage function, their Zillow purchases, their auto lending app. The opportunity is for credit unions putting more resources into making opportunities happen, and that has to happen top-down from the board and management."

2. It's less about numbers and more about analytics.
The ubiquity of mobile phones gives credit unions access to unprecedented amounts of useful data. "We're seeing more of a focus on targeted marketing, with credit unions using what they know about an individual member to promote the right product or service at the right time," says Virginia Scott, senior product manager at CUES Supplier member Fiserv (*www.fiserv.com*), Brookfield, Wis. "This enables credit unions to further their relationships with members, because offering services at the time of need can be perceived as helpful, rather than as 'spam.'"

Products per household and transactions per product are out, says Tim Daley, senior consultant at Cornerstone Advisors. Behavioral analytics are in.

Is it perceived as creepy? Not if you're actually being helpful. Kilmer points out that when financial institutions use behavioral data to prevent fraud, customers are extremely grateful and tend to enthuse on social media. Similarly, if a credit union anticipates what a member needs and makes a transaction easier, everyone wins.

"If I know that you're setting aside money for some set purchase, I now have insight into what I can market," Daley says. "If I know that you're spending an inordinate amount of money on car repairs because I've got the transactions to prove it, I can now predict, potentially, when you're going to need that car loan."

3. The best marketing is multi-channel.
With traditional marketing, via newspaper, radio, billboards and direct mail, CUs were limited in how frequently they could contact their members. Mobile gives them 24/7 access—but with great power comes great responsibility. To make the most of their marketing dollars, yet avoid annoying members with too-frequent or ham-fisted efforts, CUs must think carefully about the crossover between their marketing channels.

CUs should strive to deliver consistent and coordinated messages across all their channels. They should target messages specifically to members who will be glad to receive them, and track their data carefully. If campaigns are well thought out, the CU won't end up spamming a member with campaigns that he or she may have already responded to on another channel.

And as always, it's all about making it easy for members to respond. Says Scott, "It's important that campaigns presented on a mobile channel can be fulfilled on the mobile application or on another channel. [That means the CU is] providing a true multi-channel experience."

Mergers are Like Marriage

While some elopements last, step-by-step courtship helps combined credit unions deliver on their union's promise.

By Vincent Hui

Credit union mergers are about promises—promises to members, the community, employees and other stakeholders about the value a combination will create in the future. Setting and meeting these promises form the basis for assessing whether a merger makes sense and whether it delivers the intended value.

The merger process is very much like finding a life partner, with different stages of "dating." If everything works out, it leads to the "ultimate" promise—the vows of the "marriage"—which the partners then need to faithfully work to keep.

Getting Ready for the First Date

Many credit unions can survive with the moderate growth that comes from providing basic financial services to members. However, this level of growth alone will not be enough to generate a lot of earnings and capital that credit unions need to invest in new products and services. To make these kinds of investments, credit unions must achieve the sort of financial flexibility that will enable investments in new products and services, provide better rates to members, serve members in an expanded field of membership, and grow capital to support more credit to members. To reach this goal, a credit union has two options: go it alone or complement its growth strategy by pursuing a merger.

The credit unions that will find it most difficult to choose from these options are the "tweeners" (those between $200 million and $1 billion in assets). Does staying single make sense or do they start looking for committed relationships? Many of these credit unions have achieved some financial flexibility, but boards and management struggle to determine whether it is enough in light of:

- the mounting regulatory burden that translates to increased costs;
- how CUs are investing in technology to create differentiated experiences, only to find that any differentiation is copied and, to stay ahead, they have to regularly revisit their efforts;
- changes in member behaviors and attitudes toward financial institutions; and
- emergence of lending and payments financial technology companies.

Saying that your credit union will pursue mergers opportunistically in your planning process is not enough to be effective—both reactively and proactively—in evaluating opportunities. Instead, boards and management need to think about the type of promises

they want to make to members. For example, what value will members get from a merger? What level of financial flexibility will the institution achieve? And what does leadership want to do with that level of financial flexibility?

This planning effort includes defining ahead of time such non-negotiables as board structure, surviving brand and credit risk profile, and making sure board and management are in alignment.

A credit union can't necessarily plan when a merger opportunity will present itself. But once a merger is in motion, a CU can influence the timing and pace of the process leading to completion.

This includes defining the steps proposed to be taken and the timeline for how the merger will progress; identifying how and when to engage management, board and third parties during the process; and outlining top due diligence priorities and responsibilities, including credit, compliance and risk mitigation.

It is important to note that cultural fit is a key consideration in all mergers. Given its importance, it is critical to define what it looks like and how it is assessed for your credit union.

The First Date

What's the objective of a first date between two people? To get a second date! It is the same in initial merger discussions between credit unions.

The first meeting (typically CEO to CEO) is exploratory, and focuses on identifying the elements behind the common belief between the CEOs (and their understanding of their boards' feelings) that there are compelling strategic reasons to continue "dating."

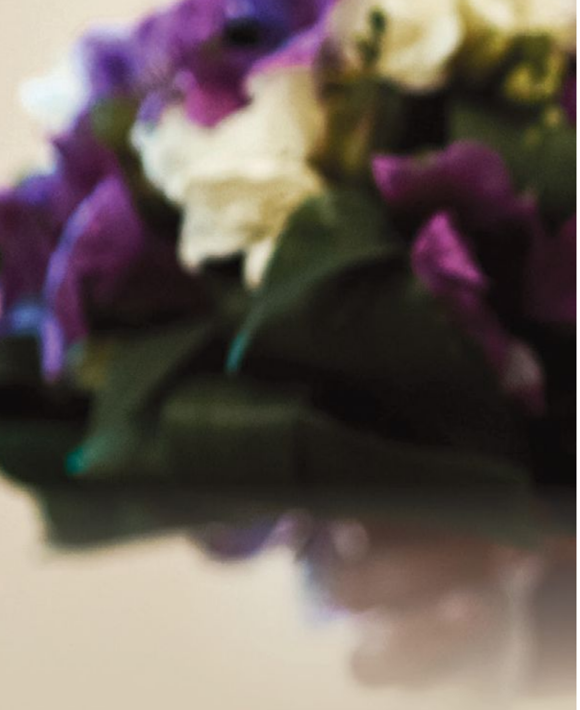
This belief ultimately centers on whether a merger will provide the combined credit union with the increased financial flexibility needed to better serve members, *and* that a combination will accelerate and achieve financial flexibility better than each institution going it alone. If the CEOs don't find commonality here, they should part as friends.

If the driving rationale behind a merger is to get bigger or to gain scale, then the reasons for the combination are flawed. Getting bigger is insufficient strategic justification for a merger, and scale is a means to an end—not the target outcome.

The Second Date

If there is common ground and the credit unions want to pursue a second date, the next meeting typically centers on "value to member," or the strategic opportunities a combination can create for members. Value to member comes from two perspectives: that of the individual member-customer and that of the collective member-owners.

Value to member for the member-customer focuses on better offerings, greater convenience, differentiated member experiences, and better rates. These discussions need to include depth on "how much" members will benefit. Identifying the key metrics that will change (e.g., products per household, lending pull-through rates, and member satisfaction) will make the discussion tangible and create the beginning of the promises that will be made to stakeholders to gain support for the combination.



Deal-breakers come in two flavors: business model deal-breakers and deal structure deal-breakers.

Value to member for the collective member-owners focuses on the benefits to the overall membership. Discussions from the owners' perspective include capital position, balance sheet diversification (to reduce risk), brand strength, staff, and management depth. These are more inward-looking, and financial discussions are critical to solidifying the foundation for a credit union to thrive long term. The promises in this area also include those made to employees (more career opportunity, enhanced development) and to the community (ongoing support, involvement).

While these discussions are meant to generate excitement about a formal combination down the road, they should be balanced by the risks associated with integration and execution of the future business model. It is during these conversations that gaps in thinking are identified, and candid discussion will help determine whether the gaps can be bridged or if they are deal-breakers.

Deal-breakers come in two flavors: business model deal-breakers and deal structure deal-breakers.

Business model deal-breakers typically fall into four categories:

- **Human resources**—Is the approach to managing and rewarding people significantly different? This is one of the biggest cultural differences we see in failed mergers.
- **Financial**—Will we achieve the financial flexibility we seek and are we OK with the near-term impacts to achieve it (merger costs, staff reductions, capital dilution)?
- **Credit**—Are we all right with the current credit profile of the loan portfolio *and* is the credit approach compatible for future lending strategies and risk appetite?
- **Compliance/legal**—Is there outsized risk exposure that may constrain a combined credit union's ability to operate as planned?

The most common deal structure deal-breakers come from discussions of the following:

- the structure and composition of board and management governance, including how many board seats will be allocated to each CU, who will be the CEO of the surviving credit union, and who will report to the CEO;
- which of the merging credit unions' brands will survive;
- whether any branches or operations locations will be shut down; and
- the level, nature and timing of any staff reductions.

Talking about the deal-breakers may be awkward, but it is crucial. It is important to pinpoint any deal-breakers as early as possible so time is not wasted on due diligence if these key issues cannot be bridged.

Merger mismatches are typically identified in the deal structure phase rather than from diligence findings. Avoiding tough questions about deal breakers allows uncertainty to fester, creating frustration and more cynicism in decision-making.

If both credit unions are still excited after the second date and have their eyes wide open to the risks, the stage is set for future dates and the "prenuptial agreement" (the term sheet).

Setting Promises and the Prenup

The next steps in the process generally center on four things:

- term sheet,
- strategic vision,
- due diligence and
- communication plan.

Term Sheet—This is where credit unions can take a page from banks. Typically, banks create a non-binding term sheet that outlines key aspects of the combination and touches on the most sensitive points from either side (including the potential deal-breakers). The CEOs are empowered to negotiate this term sheet with final approval by the boards.

The most successful term sheets are those that are fact-based and, in merger-of-equals situations, provide a third option for decision-making as opposed to one side "winning." Future anxiety and distraction for management can be avoided with early decision-making—either the credit unions can bridge differences on their most important issues or they can't.

Strategic Vision—Parallel to the term sheet, the two credit unions should develop a clear vision of what a combined CU will look like. This would define the key strategic priorities for keeping the promises as well as the success metrics to monitor progress. The strategic vision highlights what new aspects of the business model will be created and where the increased financial flexibility will enhance the combined business model.

A significant part of the strategic vision is your risk appetite and how it may change. Doing what you do today may prevent the CU from achieving the level of financial flexibility you are promising. It is important to determine what risks (credit and non-credit) may be more acceptable (or not) in alignment with your strategic vision.

Your strategic vision needs to take into account your ability to absorb risk exposure and potential loss, where scrutiny could increase (such as from regulators or members); and what risks may require more care and oversight if your business model changes. If the term sheet is the prenuptial agreement, the combined strategy, including updated risk appetite, is the summary of the joint goals and life plan.

Due Diligence—Due diligence is a key "gate" in the merger process. It's like inviting your significant other to meet your parents, which you only do when you think things are serious. In this major step, the two credit unions need to share confidential information, bring in more managers to perform diligence, and start delving into integration planning. Due diligence should focus on three things:

- validating and refining the initial

promises (strategic and financial);

- identifying and planning for the biggest integration issues and costs (systems, benefit plans); and
- defining the cultural fit and how it is assessed.

The biggest mistake we see is when credit unions try to look at every process and document at once. It is *not* a question of whether you do rigorous diligence. It *is* a question of *prioritization* and *sequencing* in terms of impact on deal structure and integration.

For example, do you want to understand overlaps and differences in systems and human resources compensation and benefit plans early on? Absolutely. Do you need to do detailed process reviews in all areas or identify how your cost center hierarchies roll up? No, not right away.

Due diligence is the beginning of the discovery process. The key to efficient and effective due diligence is laying out a plan that assigns key focus areas to an owner, and then having a candid discussion among the diligence team (facilitated by the CEO and risk department) to ensure the appropriate scope and depth are defined.

At the end of the due diligence, the credit unions should have defined all the major integration and risk points to determine what promises will be made to stakeholders in the merger agreement.

Communication Plan—The best practice is to develop an internal and external communication plan as early as possible. It should be co-owned by someone from each CU. The plan should cover all stakeholders, including regulators, and should include clarification of roles, communication objectives, and calendars. When these elements are completed to everyone's satisfaction, the regulatory approval, member vote, and merger agreement process will go much more smoothly.

Keeping Your Promises

If the dating rituals lead to a trip to the altar, the credit unions now need to focus on keeping the promises they made to their stakeholders. As one client said, "Everyone has worked hard so far, but now the hard work starts."

Achieving financial flexibility through a successful integration is just the first part of meeting the promises. Strong managers in the right roles with the right incentives to leverage that newfound flexibility comprise the other part. It is critical that everyone in the combined organization understands the promises made, the metrics underlying them, and how systems, policies, and processes contribute to keeping the promises—and these rock star managers will be key drivers of this awareness.

Achieving financial flexibility through a successful integration is just the first part of meeting the promises. Strong managers in the right roles with the right incentives to leverage that newfound flexibility comprise the other part.

When it comes to integration, one thing is clear: Systems conversion is not an end goal but a means to an end. The root cause of many CU mergers not meeting their potential is that success is often defined as a successful conversion rather than meeting the broader promises. Putting your top performers on integration will increase the probability of success. Backfill their current roles with temporary employees and have your top people focused full time on driving breakthrough change while managing execution risk. In addition, this can be a great talent and leadership development opportunity for your credit union.

A word of caution: Avoid a "Phase 2" mentality. Instead, use the continuing discovery process to develop better ways to sell and service members. Often, the combined credit union will adopt one of the CU's processes with the intent of enhancing them later. Unfortunately, Phase 2 rarely comes and financial flexibility is not maximized, especially in a merger of equals.

Integrating and then managing a larger organization—especially in a merger of equals—is a lot different than in a smaller organization. The "I don't know what I don't know" scenario will be more common in a larger merger, especially for "homegrown" managers. Trial and error as a methodology for managing a larger organization often works ... but then again, it often doesn't.

CEOs can manage execution risk and support their teams by assessing their people and putting them in roles to be successful—realizing that this may elicit emotional responses in executives who no longer report to the CEO. The CEOs need to design an organization that will best keep the promises made, and bring in managers to fill in skill gaps. While staff attrition is a key risk, there are ways to reduce that risk—for example, organizational design and retention plans that create new opportunities.

While not everything will work out perfectly, there are many steps CEOs, the board, and the management team can take to help merger partners better define and keep promises to each other and their stakeholders—leading to a happier and successful marriage down the road.

Vincent Hui *is a senior director with* Cornerstone Advisors (www.crnrstone.com)*, a CUES Supplier member and strategic provider based in Scottsdale, Ariz.*

Resources

Also by Hui: "Credit Union/Community Bank Mergers Often Not a Mismatch" on CUES Skybox blog. Access it free at *cues.org/21616mergernotmismatch*.

Also read "Mergers Not About Nerve" from our February issue (*cues.org/0216mergers*).

CUES' new Mergers & Acquisitions Institute (*cues.org/mai*) will be held June 27-30 at the University of Chicago.

CUES eVote: Elect and Educate (*cues.org/evote*) can help streamline your merger vote, managing everything from electronic and paper ballots, to member service, to tabulating the final results.

SPECIAL REPORT: PAYMENTS
CREDIT UNION MANAGEMENT

The Mobile Banking Prize

CUs need to make a good connection with members on the least expensive, most convenient channel for both: the smartphone.

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Is 2016 the tipping point for mobile payments?

The Mobile Banking Prize

CUs need to make a good connection with members on the least expensive, most convenient channel for both: the smartphone.

By Jamie Swedberg

Richard Crone, CEO and founder of Crone Consulting LLC (*www.croneconsulting.com*), San Carlos, Calif., has collected 12 years' worth of data about the touchpoints credit unions share with their members. CUs know the financial services market is changing, but when it comes to mobile banking, his numbers are a reality check.

"Branches and the contact center and the ATM used to account for nearly 95 percent of all the service interactions 15 years ago," he says. "Now, the mobile app accounts for more than 50 percent of all the service interactions. Right now, the No. 1 feature is mobile remote deposit capture. Right under it, though, is payments at the physical point of sale. Fifty-two percent of millennials say they'll switch financial institutions for the ability to pay with their phone."

If credit unions think point-of-sale payments are still too futuristic to pursue, they should think twice, agrees Tim Daley, director at Cornerstone Advisors (*www.crnrstone.com*), a CUES Supplier member and strategic provider in Scottsdale, Ariz. Consumers are already using their phones to pay for coffee at Starbucks, and it's considered routine to use an airline app to display a barcode for a boarding pass.

To put a finer point on it: Several years ago, Chase launched the mobile remote deposit capture revolution with its advertisement showing a couple depositing wedding checks while on their honeymoon. Consumers suddenly expected the new technology as a matter of course, and they left institutions that didn't offer it. Last fall, that same big bank launched a branded mobile point-of-sale payment solution. The effects could be just as dramatic.

"Once the big banks lead the way, I think a lot of smaller and medium-sized credit unions will realize this is real, it's coming, and they're going to need to compete," says Paul Fiore, founder and CEO of CU Wallet (*www.cuwallet.com*), Los Angeles. "People are getting more and more comfortable with using their phone as their primary way to buy things."

With its central role in people's lives, mobile banking is not only an important self-service channel, says Crone. It's the branded launch pad for new products and services to members. And he believes CUs aren't taking it nearly seriously enough.

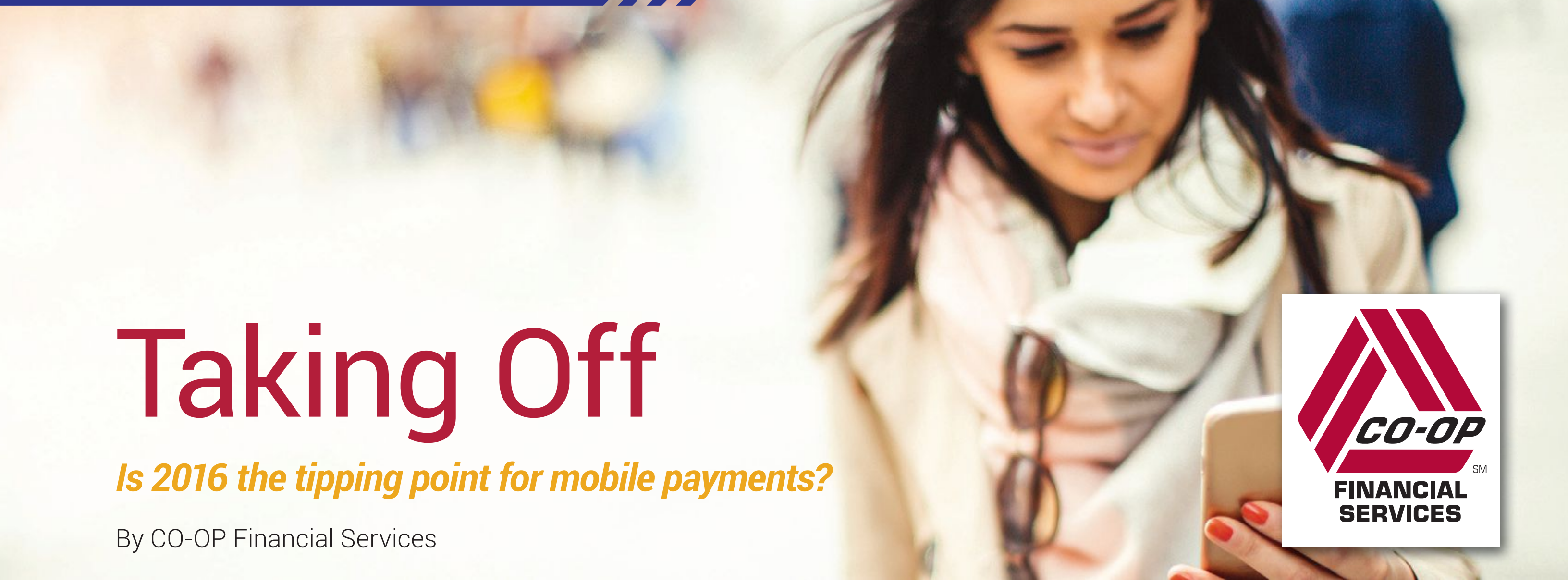
How, then, should credit unions drive mobile adoption and make the most of their members' mobile device usage? We found some key ideas.

Think Again

The most obvious way to drive mobile adoption is through rewards programs.

If your credit union has soured on rewards in the past because they haven't worked, Daley says you might want to reconsider.

Continues on page 34.



Taking Off

Is 2016 the tipping point for mobile payments?

By CO-OP Financial Services

Industry experts agree that after years of discussion and much speculation, mobile payments are finally taking off. In fact, according to eMarketer.com, the U.S. market is expected to triple this year to $27 billion, up from $8.7 billion in 2015. And, the research firm reports, the number of people making proximity payments will increase by nearly 62 percent to more than 37.5 million.

Consider also a recent Gartner, Inc. report predicting that by 2017, mobile commerce revenue will account for 50 percent of all U.S. digital commerce revenue.

"While consumers and merchants have been relatively slow to adopt mobile payments until now, we are starting to see the numbers tick upward," says Amanda Smith, strategic product architect for CO-OP Financial Services. "So 2016 may just be a breakout year for the technology."

Emerging Markets Are Going Mobile

According to Smith, to-date the U.S. has lagged a bit behind some nations in terms of mobile payment adoption.

"Interestingly, some of the fastest adopters of the technology have been such regions as Southeast Asia, the Middle East and Africa," she says. "Because their emerging economies are not hindered by legacy systems, they have been able to leapfrog into the future with infrastructure that is purpose-built for mobile."

Smith notes, however, that the U.S. leads the world in terms of non-cash payments. "We are quite accustomed to using our cards instead of cash," she says. "As mobile payment technology becomes more readily available on smartphones and at merchant sites, we expect consumers to embrace it."

The All Important 'Wow' Factor

When it comes to mobile payment adoption, Smith emphasizes that the experience delivered by the technology must entice customers in order for them to use it.

"Most of us within the financial industry are focused on speeding up payments," she says. "But when you consider how efficient cards are for the consumer, you quickly realize that speed is not enough. Consumers are looking for flawless utility and an experience that 'wows' them."

Smith adds that rewards may emerge as a key factor in furthering adoption of the technology. "If consumers can receive special offers or points for switching to mobile payments, that may keep the technology top of wallet," she says.

Another factor that could drive mobile payment adoption overall is the increasing popularity of P2P payments, a technology whose journey into the mainstream has taken its own twisted turns.

"Early on, the vision for P2P payments was one of friends splitting the bill at lunch without having to divvy up cash," she says. "What we have found instead is that the average P2P transaction amount is much higher than that—in the hundreds of dollars. This suggests the technology is primarily used today for sharing larger purchases or dividing up household expenses. However, smaller transactions are gaining ground, and we expect this trend to continue."

To support an increasingly mobile member base, Smith advises credit unions to get behind the major digital wallet providers and to ensure CU employees are well versed in everything mobile.

"CO-OP offers support for all the 'Pays' and "Buy' buttons," she says. "These tools simplify both mobile and online transactions for members."

Another trend sure to impact payments, adds Smith, is the emerging "Internet of Things" (the network of physical objects–devices, vehicles, etc.—embedded with electronics that enable these objects to collect and exchange data).

"This amazing development is widely discussed in the press and promises to yield a whole new class of devices that are on 24/7, taking instructions and intuitively doing what they need to do," she says.

"What is ironic about this dynamic is that the technology may actually restore a sense of simplicity that modern commerce lacks today. For example, if you had lived in a small town back in the days of the Wild West, your goods and services would all come from one general store–and you would have a running tab there. Mobile devices of the future will likely serve as that running tab, tallying our transactions as we go about our daily lives. That is where the technology is headed."

CUES Supplier member CO-OP Financial Services *is the nation's largest credit union service organization in terms of number of credit unions, assets and members. The company, based in Rancho Cucamonga, Calif., helps credit unions thrive by providing products and services that make it more convenient for members to do business with them. To learn more, visit* www.co-opfs.org.

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CRS
CREDITORS RESOURCE SERVICE

"The Mobile Banking Prize," continued from page 28.

"Time was, if you had a certain balance, an institution would provide a certain value of rewards back," he says. "But that didn't seem to move the bar on whether it was the member's primary financial institution or not. The members might park a lot of money with you, but they didn't always transact with you, so you'd lose money on the servicing."

But mobile rewards are inherently different. They are awarded on a "do something, get something" basis. The more members engage, the more they are rewarded.

"We'd like for you to deposit your checks via our mobile app, so we give you an incentive to complete that transaction, hoping that it's a good enough experience that you'll continue to do it," Daley says. "And then if you do it a certain number of times, we can start to reward you based on your behavior rather than your dollar relationship.

"Because it doesn't cost us as much money as you walking into a branch, we can potentially afford to do quite a bit of this."

Mobile also gives CUs a way to customize rewards and make them maximally useful to the member. Fiore says consumers want convenience: savings of time or savings of money. Their mobile device gives the CU their location—a very valuable piece of data the CU can use to reward the member for using the institution's app.

"Not every customer wants to download Groupon or Living Social," he says. "There are a million apps to download. But if you're inside the credit union's app, we can know your location and present to you 10 offers near where you are now. If you want to just look at restaurants, we'll populate it with restaurants. If you're looking for a pizza, this place is offering three dollars off for members. And it goes right to your credit card. You don't have to do anything; you don't have to show anything."

Relatedly, mobile banking apps can be used to deliver rewards for other CU programs, thereby deepening the member relationship. Daley says one of Cornerstone's clients provides its cash-back program via mobile; members no longer have to get on a wired connection or call the contact center to find out what their rewards points balance is. He's not sure it drives mobile adoption per se, but it increases engagement on the least expensive, most convenient channel.

Smooth the Way

The biggest obstacle to mobile adoption is, fairly obviously, having insufficient mobile banking capabilities. If your CU can't provide the services members want, they won't just desert the mobile app—they might leave the credit union altogether.

"After fees, the No. 1 reason cited for leaving a credit union is mobile banking capabilities," Crone says. "And the No. 1 [mobile-related reason] for leaving is not having mobile remote deposit capture, or having a low limit on mobile remote deposit capture. Maybe the credit union limits the value of the check to, let's say, less than $2,500—but the big banks have much higher limits, or no limits, on mobile remote deposit capture."

That statistic highlights an important factor in the potential success or failure of CU mobile apps: It's important to avoid throwing up unnecessary barriers to usage. Crone points out that about half of all accounts are opened online nowadays and, of that, half are opened via a mobile app. But many financial institutions with perfectly good mobile banking apps still require members to open accounts with a wired desktop interface. He believes it is an unneeded roadblock.

"Millennials aren't using desktops," he stresses. "They will be using their smartphone or a tablet. So you should allow them to sign up for mobile banking through their mobile device. You don't need to worry about throwing money at them, or special promotions, or sweepstakes or contests, as long as you get the online account opening process right."

He says balance inquiries, by far the No. 1 use of mobile banking, can be made easier, too. Balance information is private, but not strictly confidential, so it can technically be provided without requiring a member to log in.

"Some apps now allow you to see your balance simply by opening the app, not by logging in," he says. "Now, if you want to transfer funds, if you want to pay bills, that's a different story. It will require you to log in. But you need to get the user experience right, and that begins by having a best-in-class offering. That's the incentive itself for getting people to try it and use it."

Jamie Swedberg *is a freelance writer based in Georgia.*

Resources

Read bonus coverage about why it pays to enroll members in payment options of all kinds at *cues.org/041116skybox*. Read more about the "millennial opportunity" for CUs on p. 10.

Also read related articles at *cues.org/0416omnichannel* and *cues.org/0416selfservice.* In addition, you may be interested in reading "Mobile Movers and Shakers" from the March issue at *cues.org/0316mobilemovers.*

Learn more about channel management at CUES School of Member Experience (*cues.org/some*), slated for Sept. 26-27 in Charleston, S.C.


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CUES
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Linking ALM With Strategy

Doing so can drive lasting expansion.

By Karen Bankston

There is art and science to plotting your credit union's future, in anticipating the evolving financial needs and service preferences of current and future members and in setting and adjusting course when necessary to support steady, sustainable growth.

Strategic planning and asset/liability management are intricately intertwined in both the big-picture thinking and everyday execution of financial services delivery. "Everything we do from a strategic standpoint has to be aligned with our ALM strategy as well," says CUES member Jeffrey Davenport, president/CEO of $165 million/12,000-member Southbridge Credit Union (*www.southbridgecu.com*), Southbridge, Mass.

For example, "if we want to grow mortgages, we also need to have discussions about where the funds come from, whether that's pricing deposits or borrowing from the Federal Home Loan Bank," Davenport says. "Whatever the decision is, we run what-if scenarios through our ALM model to ensure that it makes sense from the perspective of interest rates and capital."

Southbridge CU has just come through a couple years that illustrate the delicate balance of members-first service delivery and strong financial performance, as represented by the rule of thumb that "what's good for ALM is never good for net income," he notes. "It would be great to load up on 4 percent long-term loans and investments to feed the bottom line but, to effectively manage to ALM interest rate risk, you have to balance and create maximums on how much of the 4 percent balances you keep on the balance sheet with shorter-term, lower-interest loans and investments."

The credit union has always done brisk business in mortgage lending, but in 2014 and 2015, the management team and board decided to slow down its home loan business and sell some long-term investments to manage interest-rate risk and protect capital. Now with a smaller balance sheet and capital at 12 percent, the credit union is "better positioned to pursue new lending and investment services," Davenport says.

Southbridge CU also converted to a new core system in 2015, implementing the Episys solution from Symitar – A Jack Henry Company (*www.symitar.com*), San Diego. The selection process involved analysis from the multiple perspectives of cost, service delivery, and operational efficacy. "As we drilled down, we compared which provider would be more in alignment with our strategic aims as well as allowing us to operate more efficiently," he notes.

The 'Physics' of Financial Services

Credit union executive teams and boards might approach strategic and asset/liability management with an adage adapted from Newton's law of motion—that for every action to implement strategy, there is an equal and opposite reaction, suggests Steve Williams, principal in Cornerstone Advisors (*www.crnrstone.com*), a CUES Supplier member and strategic provider based in Scottsdale, Ariz. As just one example, a decision to lead the market in CD

rates might leave a credit union with excess liquidity, reduce earnings, and rule out the possibility of developing new remote services that members value.

"Today/tomorrow comparisons" are a good way to connect the impact of strategic initiatives directly with financial performance, through a discussion about likely changes in the balance sheet mix over the next three to five years, Williams says.

"If a credit union is working to grow its business services, do more mortgage lending, or bring in more digital deposits, these discussions go into more assumptions about the growth of these different assets and liabilities," he notes. "That certainly ties to whether this creates any concentration risks or issues with projected changes in the balance sheet mix."

Interest rate risk and liquidity risk are two other crucial issues to assess in settling on and monitoring strategic implementation, he says. "Every board member should know by heart what the change in market value of equity is when rates go up 300 basis points in the interest rate shock simulation. It's a very good bellwether measure (a leading indicator, with the shock simulation representing the potential impact on financial performance if rates began to rise quickly). Or, just as importantly, what does it mean for us in a risk position if rates stay low for another three or four years?"

Good Modeling, Better Decisions

The effective application of ALM modeling to strategic planning and implementation "helps us to make good decisions," says CUES member Shawn Hayes, president/CEO of Ticonderoga Federal Credit Union (*www.tfcunow.com*). "It's hard to put a price tag on the level of comfort and confidence that good modeling can provide."

Over the last couple years, the management team and board of the $93 million Ticonderoga, N.Y., credit union serving 9,300 members have tested scenarios through ALM modeling to assess the impact on:

- how lowering loan rates might impact loan balances and overall loan yield;
- how the balance sheet interest-rate risk profile might change and what the risk to net worth might be under various rate, volume, and maturity scenarios with the introduction of a new adjustable-rate mortgage product; and
- how the launch of investment services might impact the income statement, balance sheet, liquidity, and net worth positions by assuming various levels of deposit migration off the books. In this example, modeling helped the credit union identify potential issues and consider safeguards, such as alternative sources of liquidity.

Ticonderoga FCU employs an ALM model developed by C. Myers (*www.cmyers.com*), Phoenix, the same company that facilitates the CU's strategic planning. "The strategic initiatives we identify serve as our filter for the next three years," Hayes explains. "Management is guided by those initiatives. If someone on the team brings a project to the table, we filter it through these initiatives to determine whether it aligns with our strategic plan and therefore will keep us on target as we decide whether we will add it to the list."

At the most recent planning session in October 2015, the board and management team set goals for new lending and technology initiatives as well as net worth and earnings targets. "We want to be a lending machine. We need sustainable earnings to ensure a viable, competitive organization now and into the future," he says.

Hayes's view of ALM changed when he was introduced to modeling as more than a compliance exercise at a conference about 15 years ago, where a speaker talked about using forecasts and data analysis as a competitive weapon. Ticonderoga FCU tried several ALM forecasting tools before choosing the C. Myers model.

"We try to be wise enough to realize that the model is only as good as the assumptions we put into it, so our goal is to conduct back-tests (revisit assumptions) regularly," he notes.

When exploring potential new directions, "if the data show that a proposal wouldn't be a good idea, we can adjust our assumptions to see if we can come up with better plans," he adds. "But we know that we have to be ready to walk away" if projections are significantly unfavorable.

Communicating ALM Strategy

ALM forecasting and analysis also provide a firm foundation for board discussions on progress with strategic initiatives, Hayes says. Though some directors serve on the ALM committee, all board members are invited to attend ALCO meetings if they would like to see more detailed analysis. "Good board education and communication are key," he concludes.

Davenport agrees. Three directors serve on the Southbridge CU ALCO alongside the senior management team, and those board members also serve on the board's investment and credit committees "to foster cross-pollination and enhance communications," he says.

The ALCO employs an ALM model developed by Brick & Associates (*https://brickinc.com*), E. Lansing, Mich., and the directors who serve on the ALCO also attend the annual conference sponsored by that company as part of their continuing education.

The Southbridge CU Board has moved to a consent agenda to deal with routine matters quickly, so directors can focus on more substantive matters, including the alignment of strategic priorities and ALM goals, Davenport adds. The management team and board draft a three-year strategic plan and then monitor progress regularly. "We look at: 'Are we on target? What can we be doing better, more, or less? And are our plans for year 2 and 3 still feasible?'"

Karen Bankston *is a long-time contributor to* Credit Union Management. *She is the proprietor of Precision Prose (www.precision-prose.com), Portland, Ore.*

Resources

Read a bonus article, "Running on Low Rates" (*cues.org/ccubealmstrat*), recent finance content (*cues.org/ccubefinance*) on CUES' Center for Credit Union Board Excellence. Not yet a member? Sign up for a 30-day free trial by emailing *cues@cues.org.*

Read how boards can acquire better tools and strategies for financial decision-making in "Making It Work" at *cues.org/1015makingitwork*. You may also be interested in: "Unconventional Thinking: Capital is King" (*cues.org/0316capital*), "Auto Lending ALM" (*cues.org/1115auto*), and "CFO Focus: Stress Testing" (*cues.org/061115cfofocus*).

If you liked this article, you might like attending CUES Director Strategy Seminar (*cues.org/dss*) and Advanced Director Strategy Seminar (*cues.org/advdss*), slated for June 13-15 and June 16-17, respectively, in Asheville, N.C.

Mirror Lake
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Commercial Real Estate Lending

To launch and guide an effective program, boards and executives must move meticulously and provide a strategic context.

By Diane Franklin

If your credit union is looking to venture into the waters of the commercial real estate lending market, it's probably best not to dive immediately into the deep end of the pool. CUs with experience in this market advocate proceeding cautiously. As you gain experience and expertise, you can more fully immerse yourself and take full advantage of having a commercial real estate lending program.

"When we began, we decided to focus on asset quality even if it meant slower growth," says Mike Donadio, SVP/lending at $906 million Seven Seventeen Credit Union (*www.sscu.net*), based in Warren, Ohio. "That was the decision we made 15 years ago, and it's been our approach ever since—to emphasize quality over growth for growth's sake. And even though we adhere to that decision, we grew over 25 percent in commercial loans last year. "

Currently, Seven Seventeen CU's commercial loan portfolio is at $90 million. "It seems like the growth followed, based on how we set our priorities," Donadio says. "I think our reputation has helped us. We're perceived in the business community as a trusted lender."

The Need for Board Oversight

As part of a careful and methodical approach to commercial lending, credit unions will need to rely on their boards to play a pivotal strategic role. This business line—perhaps more than any other—will require boards to be diligent in their oversight. After all, the dollar amount of a single transaction is much larger than that of an auto loan and even a mortgage for that matter.

"If you take a loss on the business side of the house, it's generally big," says CUES member Gail DeBoer, president/CEO of $850 million SAC Federal Credit Union (*www.sacfcu.com*), Omaha, Neb. For that reason, SAC FCU has set a policy to have its board of directors review commercial loans that exceed a set dollar amount.

As DeBoer explains, "We've kept that dollar amount pretty conservative because we believe it's important that the board understands the risk that might be involved in one borrower and that they're comfortable with it."

Since entering the market 11 years ago, SAC FCU has grown its commercial lending program to nearly $75 million with the majority of the growth occurring in the last two to three years. Once again, it was a careful and meticulous approach that eventually fueled the growth.

"We started the business lending division in a very measured, controlled, phased-in and sound way," says CUES member Alan Stoltenberg, SAC FCU's chief lending officer. "First we developed what we consider to be very strong policies and procedures. We began small by focusing on loans that we were comfortable with and building our experience. Along the way, we took the time to educate our board of directors and worked with them so they were learning this process right along with us."

At SAC FCU, the success of the commercial lending program begins with the board of directors' oversight. "This takes place at our strategic planning meeting, where our board sets the direction and our goals for the next three to five years," says DeBoer. "This includes determining just how involved in business lending they want us to be, and they're very engaged in the process."

$1 billion Arkansas Federal Credit Union (*www.afcu.org*) has likewise found it important to have strong board oversight and involvement in its commercial lending program.

"Personally I think it's absolutely critical that the board be involved," says Alan Harrison, VP/member business services for this Jacksonville, Ark.-based CU. "We have an MBL committee, which consists of our president/CEO, our chief lending officer and myself, and we make it a point that our board be aware of what we're doing.

"Any time there is a loan or an aggregate relationship over $3 million, it's going to go before the board, and we don't just do a rubber-stamp process. We actually sit in

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the board meetings with them, go through the spreads, talk about the ratios and the cash flows, and we usually include some pictures of the project."

Arkansas FCU launched its MBL program in 2014, bringing Harrison on board the following year. Since the beginning of 2015, the credit union has grown its commercial lending portfolio from $7 million to more than $30 million. However, Harrison stresses that this robust growth was accomplished with a detailed plan in mind.

"We have been very strategic, meticulous and cautious," he explains. "We gave careful consideration to the markets we wanted to be in."

Helping Arkansas FCU in this endeavor was Hipereon Inc. (*www.hipereon.com*). "They helped us identify what segments of the market to go after and what products we needed to have in place."

Diversification and Education

Commercial real estate lending has proved a good fit for many CUs, giving them the opportunity to diversify their business and develop a strong member base that includes both consumer and business members.

"When you look at the overall loan portfolio that is in existence for member business lending in the credit union space, there's a little over $52 billion in loans right now, about 95 percent of which has either been done for commercial real estate or is secured by commercial real estate," reports Jim Devine, CEO of Hipereon Inc. (*www.hipereon.com*), Redmond, Wash. Devine is also lead faculty for CUES' business lending schools (*cues.org/schools*) and CUES Advanced Director Strategy Seminar (*www.cues.org/advdss*), which will teach directors about how to envision the strategic context for member business lending.

"Credit unions have built a comfort level with commercial real estate based on its tangible nature," Devine adds. "They are comfortable with the collateral, and they don't see real estate lending as having as many moving parts as commercial or industrial loans, where you're lending money to a functioning business and you have to understand the mechanics that dictate cash flow that's unique to the loan design for that particular business."

As boards set strategic direction for their credit unions' commercial lending programs, it's important that they remain knowledgeable and informed about what these programs entail.

"They should surely have an understanding of what level of concentration the loan portfolio has that's dedicated either to commercial real estate or construction," Devine says. "They should also be familiar with the processes that are in place to underwrite and manage those credits."

As part of its oversight, the board should ensure that the CU is not venturing into lending areas that are beyond the organization's capabilities, Devine stresses.

Another key component that boards should understand is the CU's underwriting mechanics and administration capability. "They need to know what you're doing is what is planned to be done, and it's not being cobbled together cavalierly," Devine says. "That's accomplished by having the right people with the right training as well as systems in place that allow" monitoring.

Devine also stressed keeping up on the pending regulations from the National Credit Union Administration, since they will have a major impact on CUs' MBL activities when the rules go into effect Jan. 1, 2017. (See bonus article at *cues.org/0416mblrulechanges* for details.)

Regular education is key to keeping the board adequately informed about the complexities of commercial lending. And, in many cases, directors themselves can be an excellent source of expertise.

Arkansas FCU is benefitting from the knowledge and experience present on its board of directors, including public accounting, law, business, military leadership and government service.

While "there's a tremendous amount of prior and current institutional knowledge on the board" of Arkansas FCU, according to Chairman Jerry Spratt, a CUES Director member, he and other board members are dedicated to continuous MBL learning.

"The board has taken a hands-on governance approach concerning the MBL program, because it's new and also because these loans are fairly substantial," Spratt reports. "It's been a great process designed to increase our knowledge of the program, which requires board approval for secured loans in excess of $3 million and for unsecured loans in excess of $100,000."

At SAC FCU, Chair Jim Rockwood sees a diverse board as being better able to serve its function of offering effective strategic input and oversight. "Our current board includes CPAs, attorneys and a university professor, which gives us a broad range of expertise and experience to assess and evaluate the program," he says.

Working together, the board and staff of a credit union can create great results.

"I see this as an opportunity for us to set the streets on fire," Harrison says of member business services in general and commercial lending in particular. "When people think of credit unions, many times they think of their house or their automobile. We want to realign our members' thinking so they also see us as offering support for small businesses, large businesses—you name it. We have the capacity and the expertise to do everything that the big guys do, and we want to earn the opportunity."

Diane Franklin *is a freelance writer based in Missouri.*

Resources

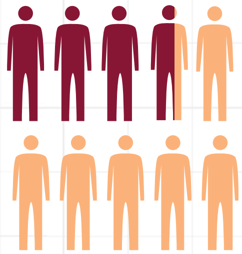
See Devine talk about "Controlling Business Loan Portfolio Risk" in the video at *cues.org/bizloanriskvideo.*

Read a bonus article about pending rule changes for member business loans at *cues.org/0416mblrulechanges.*

And read more about Seven Seventeen CU's business lending program at *cues.org/1215faster.* Learn about how SAC FCU markets its member business services while supporting the local fashion industry at *cues.org/061515fashion.* Also read "What's New in Member Business Lending?" at *cues.org/0314mbl.*

CUES Business Lending Edge e-newsletter could be a valuable resource for setting the strategic context for your program. Get past issues and subscribe at *cues.org/ble.*

CUES Advanced Director Strategy Seminar (*cues.org/advdss*), slated for June 16-17 in Asheville, N.C., will focus on how to set the strategic context for business lending. Your business lending leaders may also be interested in attending CUES Advanced School of Business Lending: Commercial Real Estate Lending, Sept. 12-16 (*cues.org/ socrel*).



Hiring Business Lenders

As credit unions expand their MBL programs, finding qualified personnel gets trickier.

By Lin Grensing-Pophal

New business lending rules (*http://tinyurl.com/mblrules*) recently approved by the National Credit Union Administration (*www.ncua.gov*) are providing an opportunity for credit unions to expand even further into commercial lending—offering benefits both to members and to credit unions.

Business lending is big business but, unfortunately, it's a competitive business both in terms of attracting business borrowers and in terms of attracting the business lenders to make those loans.

The new rules have already sparked interest, says Pamella Easley, CEO of Extensia Financial (*www.extensiafinancial.com*), a CUSO based in Northridge, Calif. Following NCUA's announcement in February, she says, "We've been receiving a lot of phone calls from credit union CEOs and chief lending officers as to how should we get started, or we want to start lending, what's your advice."

New Opportunities in Business Lending

There are a couple of options available to credit unions hoping to expand into commercial lending.

"What we're seeing is that this really falls into three categories," says Easley. "The larger credit unions have departments already—they've already hired seasoned commercial banking professionals. Then we have the mid-sized credit unions where they may have hired someone who was in middle management, or at least a staff member within commercial banks, or within a larger credit union commercial department. And then you have the smaller credit unions where they're finding hiring, or at least recruiting, business lending professionals is a challenge."

That's because, she says, "well-seasoned commercial bankers are in a perfect market right now where they're high in demand not only in the credit union space, but also within the insurance and commercial banking space."

"If you find a good commercial lender, I can find them a job in two days," says Charles Shanley, SPHR, CFS, executive vice president of CUES Supplier member John M. Floyd & Associates (*www.jmfa.com*), a consulting and executive recruiting firm, with headquarters in Baytown, Texas. "That's one of the challenges credit unions have.

"The biggest hurdle is that it's a little pricey to get those folks; we have turned down searches because it's not realistic to find what they're looking for."

In some cases, though, particularly in smaller credit unions, CUSOs will be used to handle the underwriting and processing. "We can be a cost-effective solution so that the credit union doesn't have to hire an entire experienced commercial banking department," says Easley. "Instead, what they'll probably need to do is hire someone to oversee and manage

the business lending or commercial lending area for the credit union, someone who is responsible for interacting with a CUSO, or training somebody internally who has the acumen to translate their lending experience into commercial lending."

"Larger credit unions are usually the ones that bring it in house," says Shanley. "It's really those that are $500 million and up that are really doing commercial lending. Smaller credit unions just don't have the size. They may offer it, which is great—you want to offer it to your membership—but the way they get around it is through a CUSO to handle everything for them."

Bringing Commercial Lenders on Board

Both aptitude and experience matter when it comes to identifying commercial lending talent. "In the commercial lending and small business lending space the most successful lenders are those that have some experience in reviewing and underwriting commercial properties and really have a deep underwriting background," says Easley.

In addition, though, these lenders also need the soft skills that will make them a good fit for the credit union and a good advisor for members, says Deedee Myers, Ph.D., MSC, PCC, CHIC, CEO of CUES Supplier member and strategic partner DDJ Myers, Ltd. (*www.ddjmyers.com*), headquartered in Phoenix. The company focuses on leadership development, executive search and strategy.

Regardless of the position, Myers says she gains a view of the entire person when assessing candidates. "Completion of a degree and other items that we find on resumes help us learn about the candidates, but they aren't used for the complete hiring decision. The subjective pieces, the information we can find through assessments, help us build a picture of the entire person."

As part of her recruiting practice, she looks at 23 personal mastery competencies. For a credit union position as business lender, she believes five of these competencies are most critical: analytical problem solving; strong decision making; management; goal orientation and interpersonal skills.

Of course, those that bring experience with them, along with these softer skills are in high demand. Demonstrated experience matters, says Shanley. "In a perfect world, they'd love to have someone with a book of business," he says. A search he was recently involved with, for instance, resulted in the recruitment of a commercial lender who was actually bringing in business to the credit union. That's a big benefit. However, it is exactly the value of that benefit that makes these candidates difficult to court and, once aboard, often difficult to retain.

Grooming business lenders from within can be one option for boosting the odds that your credit union will be able to retain that lender for a longer period of time.

Grooming Talent From Within

A line manager with profit and loss responsibility, who would need to learn the credit side of the business, could make an ideal candidate, says Myers. That strategy could be ideal for CUs that have a philosophy for promoting from within. Ideally, companies that promote from within should have strong development programs. Oftentimes, those development programs don't materialize because of time constraints, she said.

However, "we need to learn to be more strategic. If we put the time into determining what type of company or what type of goals we want to achieve, there will be a lot less pain and stress and a more productive future."

When grooming talent from within, aptitude is particularly important, says Myers. "Candidates need analytical skills and an inquisitive personality, enabling them to reach out, establish relationships, be curious and understand the strategic needs of businesses the credit union wants to serve."

Simply put: "Does the candidate have the aptitude to get up and get out of the office?" Myers asks.

That aptitude is critical based on the breakdown of a day by staff in a business lending department. Myers estimates that at least 30 percent of time should be devoted to being in front of members and making outgoing calls. Another 10 percent to 20 percent should be tied to community events and visibility, with the remainder on ensuring that the loan process is handled in a detailed, efficient manner.

Linda Henman, owner of Henman Performance Group (*www.henmanperformancegroup.com*) in the St. Louis area, also believes that acumen should be the primary focus of credit unions seeking commercial lending talent.

She suggests hiring potential talent right out of school and then grooming these individuals internally. "Recruit directly out of the best business schools in your area. Make generous offers to those who graduated at the top of their classes, and then train them in lending processes," she suggests. "The best candidates will have an ability to see patterns, anticipate consequences, and analyze relevant information."

If your CU is looking to expand its business lending team, this could be a useful hiring strategy. Jim Devine, founder, chairman and CEO of Hipereon Inc. (*www.hipereon.com*), Seattle (and lead faculty for CUES School of Business Lending), says hiring a recent business school graduate can work well if a CU already has an experienced commercial lender on staff.

"I think it is feasible to hire college graduates but only if you have mentoring capabilities already on staff and an individual training and development plan created that will serve to mold them into qualified credit analysts and eventually commercial lending officers," he says.

The Importance of Training

Training is going to be a critical must-do whether growing from within or bringing in talent from outside the credit union. "If finding candidates with the right experience proves to be too difficult, it is possible for CUs to train current staff to handle business loans," says Steven Rothberg, president and founder of College Recruiter (*www.collegerecruiter.com*), in Minneapolis.

"You can grow from within, but you're going to have to have some credit training," agrees Shanley. "There are training programs that offer commercial lending courses they can go through." (Learn about programs offered through CUES in the Resources box at right.)

Still, he says, credit unions will still need to offer a competitive salary if they hope to keep those internally trained candidates on board. "You might lose them if you can't be competitive in the market," he says. "They have their book of business and, after a few years, they'll leave." Good commercial lenders, he says, "rotate around every few years."

Credit unions themselves need to also ensure that they're staying on top of trends and changes in the business and commercial lending landscape.

"I think it's all about partnering and leveraging experience that resides already in the industry and identifying who, in the industry, or what organizations in the industry, have this expertise," says Easley. "Who has a deep understanding and how can we partner with them to learn or update our knowledge?"

While Easley acknowledges that there are no "magic answers," she says: "I do believe that the core is going to be around finding the expertise or finding the entity that you're comfortable in working with, absorbing the knowledge and information and then developing a program that makes sense for you."

It's a new frontier for some credit unions, Easley says, and one that can be fraught with new risks that must be effectively managed. But there is no question that opportunities exist for those credit unions that are poised to seize them.

Lin Grensing-Pophal, SPHR, *is a freelance writer and human resource management and marketing communication consultant in Chippewa Falls, Wis. She is the author of* The Everything Guide to Customer Engagement *(Adams Media, 2014) and* Human Resource Essentials *(SHRM, 2010).*

Resources

CUES School of Business Lending is facilitated by the same experts who train the state and federal examiners. Attend all three, and employees will learn to develop a successful business lending program that is right for your credit union (*cues.org/sobl).*

CUES Advanced School of Business Lending: Commercial Real Estate Lending (*cues.org/cre*), Sept. 12-16 in Santa Fe, N.M., is the next step for graduates of CUES School of Business Lending.

Learn about succession planning and coaching services offered by DDJ Myers at *cues.org/ddjmyers.*

My View From the CUES Next Top Credit Union Exec Stage

By Tim McAlpine

Currency Marketing has been collaborating with CUES since 2010 to bring the CUES Next Top Credit Union Exec (*ntcue.com*) competition to life. As we enter the nomination and application phases of the 7th annual competition, it feels like a great time to reflect on the journey to here.

2009

- CUES and Currency explore if Currency's Young & Free program can be adapted for emerging CU leaders.

2010

- CUES Next Top Credit Union Exec goes live with call for entries.
- CU employees age 35 or under who have not yet reached the CEO level are encouraged to enter.
- 41 applicants enter by producing a short video about a project.

November 2010

- Six finalists present their projects to a packed room of credit union CEOs and senior executives at CUES' CEO/Executive Team Network in Dallas.
- **Kirsi Hall** named 2010 CUES Next Top Credit Union Exec!
  - At the time, Kirsi was VP/organizational development at Seattle's Verity CU. She has since gone on to earn her law degree and also start her own consulting practice where she helps credit unions facilitate high performance leadership and thriving corporate cultures.
  - Another highlight from the first year: Runner-up **Ronaldo Hardy** entered the competition as a 26-year-old branch coordinator with La Capitol FCU, Baton Rouge, La. He made it to the finals and went on to attend CUES' CEO Institute II and CEO Institute III, complete his master's degree and be hired as CEO of Shell Geismar FCU, Geismar, La., making him one of the youngest CEOs in the credit union industry!

May 2011

- **Devin Selte, CCE**, then senior relationship manager with Edmonton, Alberta's Servus CU, is the first to enter the competition.

Nov. 9, 2011

- Selte named CUES Next Top Credit Union Exec.

  "Winning this competition was one of the most impactful experiences in my career. While participating, I found a new passion in developing people."

  - Selte has risen through the Servus CU organization and is now a branch manager. He is also the current chair of the Canadian Credit Union Association's National Young Leaders Committee.
- During his acceptance speech, Selte asked the audience of leaders to raise their hands and pledge to encourage at least one young leader in their organization to apply the following year. We loved this idea so much that we've incorporated a nomination phase ever since.

2012

- 113 nominations received from all over the world, as CUES Next Top Credit Union Exec is opened to international entries.

Nov. 7, 2012

- **Ashley Kohlrus**, chief experience officer (now chief operations officer) at Allegacy FCU, Winston-Salem, N.C., earns the title of 2012 CUES Next Top Credit Union Exec.

  "The CUES Next Top Credit Union Exec competition was one of the most impactful experiences in my career. While participating, I discovered a new level of dedication in myself and discovered a passion for sharing about my project."

June 2013

- 115 nominees!

Summer 2013

- Top 15 and, later, the Top 5 receive one-on-one coaching from new challenge sponsor DDJ Myers (*www.ddjmyers.com*), a CUES Supplier member and strategic partner based in Phoenix.

Nov. 6, 2013

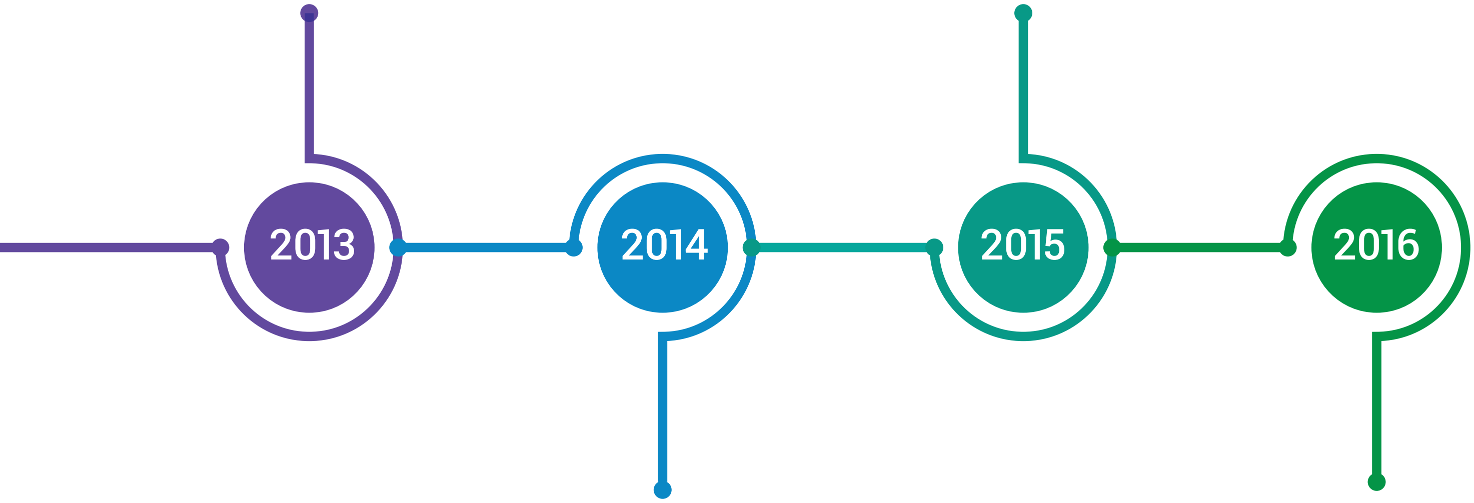
- **Amanda Brenneman-Brown**, then business development officer at Maps CU, Salem, Ore., emerges as 2013 CUES Next Top Credit Union Exec at CEO/Executive Team Network in San Diego after her project about Maps CU's "Buy Local" program really stands out to the judges and voting public.
  - Her career has also flourished. After winning, she spent two years as program manager with Northwest Credit Union Association before recently moving to Oregon State CU, Corvallis, Ore., as community education director.

June 2015

- Record 201 nominations!

Nov. 11, 2015

- **Jimese Harkley, CUDE**, philanthropy and community relations manager with America's First FCU, Birmingham, Ala., is named 2015 CUES Next Top Credit Union Exec in Scottsdale, Ariz.
- Harkley's project idea combined fundraising with a financial literacy initiative that impacts the lives of not only credit union members, but non-members as well. In her presentation, Harkley provided suggestions for how credit unions of any size could implement similar programs of their own.
  - Recently, Harkley moved to a new role as stewardship and development director at CUES Supplier member Filene, Madison, Wis.



June 2014

- 109 nominations

Nov. 5, 2014

- **Alex Castley, CHRP**, engagement and communications manager with Integris CU, Prince George, British Columbia, is named 2014 CUES Next Top Credit Union Exec.
- Castley's project about attracting a younger demographic to his credit union in terms of both members and staff was chosen from a group of international applicants.

"Being named the winner has given me a huge boost, both personally and professionally. It validated the work we are doing at my credit union, and gave a shot of confidence to all of us. We may be a small credit union in Northern Canada, but we can have an impact internationally."

May 2016

- Nominate a co-worker, peer or yourself for CUES Next Top Credit Union Exec by May 9 at *www.ntcue.com*!

Oct. 26, 2016

- More than $50,000 in prizes will be awarded! The winner receives a $20,000 educational package, including: registration, economy airfare and accommodation for one CUES' CEO Institute in 2016 and one in 2017. In addition, the winner will receive two more coaching sessions with DDJ Myers.
- CUES Next Top Credit Union Exec will be named at CEO/Executive Team Network in Savannah, Ga. Will it be a colleague at your credit union? A direct report? Or even yourself? Nominate someone today!

Tim McAlpine *is president and creative director of Currency. He is a credit union advocate best known for developing CUES Next Top Credit Union Exec* (www.ntcue.com) *and the Young & Free and It's a Money Thing programs that credit unions from around North America are using to connect with new young adult members. Subscribe to his blog at* www.currencymarketing.ca *and follow him on Twitter* @CurrencyTim!

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Clinton Earns CEO Institute Scholarship

CUES member Douglas Clinton, EVP/interim CEO of $138 million Magnolia Federal Credit Union *(www.magfedcu.org)*, Jackson, Miss., is the 2016 recipient of a scholarship to attend CUES' CEO Institute (*cues.org/ceoi*).

The scholarship provides one-third of the registration fee for all three years of the institute. Active CUES members who are full-time paid credit union executives committed to attending the entire program are eligible to apply.

CEO Institute is a challenging academic and leadership program tailored specifically for CU executives. It is held over three years at three of the nation's most respected business schools:

- CEO Institute I: *Strategic Planning*, The Wharton School, University of Pennsylvania, Philadelphia;
- CEO Institute II: *Organizational Effectiveness*, Samuel Curtis Johnson Graduate School of Management, Cornell University, Ithaca, N.Y.; and
- CEO Institute III: *Strategic Leadership Development*, Darden School of Business, University of Virginia, Charlottesville, Va.

Executives who complete all three years and two post-segment projects are eligible to become Certified Chief Executives (CCE). For more information, visit *cues.org/institutes,* call 800.252.2664 or 608.271.2664, ext. 340.

Recognize a Rising Star by May 9

Know a promising credit union leader, age 35 or under, who is not yet a CEO? Let them know how much you value their potential by nominating them (by May 9!) for CUES Next Top Credit Union Exec at *www.ntcue.com.*

CUES is partnering with Currency to present the 7th annual CUES Next Top Credit Union Exec challenge. The 2016 challenge will award $50,000 in educational prizes, including attendance at two of CUES' CEO Institutes and individual executive coaching sessions provided by challenge sponsor and CUES strategic partner DDJ Myers (*www.ddjmyers.com*), Phoenix.

Entrants complete an application and submit a short video and blog post about a project they're working on or an idea to advance their CU or the movement. The public will vote for their favorite applicant, June 29-July 13. The 10 applicants with the most votes will move on, and a committee selected by CUES will choose up to five additional applicants to form the Top 15.

A judging panel will narrow the field to five finalists, who will receive more coaching, plus airfare, accommodation and registration to CUES' CEO/Executive Team Network, Oct. 23-26 in Savannah, Ga. The finalists will make presentations, and the 2016 CUES Next Top Credit Union Exec will be named!

Download and Make a Difference!

If you haven't yet downloaded the free myCUES app (*cues.org/mycues*), do so now and CUES will donate $1 to Credit Unions for Kids (*www.cu4kids.org*), which supports Children's Miracle Network Hospitals (*www.childrensmiraclenetworkhospitals.org*).

Since 1983, Children's Miracle Network Hospitals has raised more than $5 billion—most of it $1 at a time—for 170 children's hospitals across the U.S. and Canada.

CUES will donate up to $5,000, and hopes to reach that goal by Aug. 30. Please help by downloading the myCUES app for iPhone and iPad today. (We hope you'll use the app to access great, personalized credit union content, too!)

Thank you for your support of these worthy organizations. Let's see how far we can go!

Awards Deadline

Nominations are due **June 3** for several CUES awards. Take a moment to nominate a colleague who excels in these categories:

- **CUES Outstanding Chief Executive—**recognizes outstanding leaders who display professional achievement, motivation and dedication to the community.
- **CUES Exceptional Leader—**acknowledges decision-makers for their ambition, participation and devotion to their credit union and the movement.

Executive winners will receive a crystal trophy, a feature in this magazine, and a complimentary registration to CUES' CEO Executive Team Network™, where the awards will be presented. CUES will also make a contribution to a Section 501(c)(3) charity in individual winners' names.

Submit your nomination today at *cues.org/recognition*. For more information, call CUES at 800.252.2664 or 608.271.2664, ext. 340; or email *awards@cues.org*.

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Study marketing, lending or business lending this summer in Seattle.

Build Marketing & Lending Expertise in Seattle

Marketing, consumer lending and business lending will be the focus of five CUES schools slated for Seattle in July. CUES School of Consumer Lending™ will be held July 18-19; CUES School of Business Lending™ II: Financial Analysis and Diagnostic Assessment, July 18-22; CUES Advanced School of Consumer Lending™, July 20-21; CUES School of Strategic Marketing™ I, July 18-20; and CUES School of Strategic Marketing™ II, July 21-22.

Business lending experts Jim Devine and Bob Hogan, principals in Hipereon, Inc., Seattle, will lead the business lending agenda. They see positive growth ahead for CUs in the MBL marketplace. "Many of the organizations we work with are trying to broaden their portfolios from a traditional real estate focus (mortgages) to a hybrid one that includes commercial and industrial lending. This will necessitate increased competency at these institutions, not only in originating loans, but also in portfolio management," Devine and Hogan wrote on CUES Skybox (*cues.org/sunnybizlending*).

"Recent rule changes from the National Credit Union Administration create an additional sense of urgency for credit analysis and credit decision-making skill development. The privilege of flexibility comes with the responsibility of increased diligence," they continue.

Brett Christensen, owner of CU Lending Advice, LLC, Euless, Texas, and facilitator for both consumer lending schools, suggests "breaking out of lending boxes that bind you. Finding ways to make loans to higher-risk members can not only benefit the CU's bottom line, but also create loyalty among the underserved. The approach I advocate is aggressive, yet prudent."

Mark Weber, CEO of Weber Marketing Group, and his Seattle-based team will lead both sessions of CUES School of Strategic Marketing. Session I will cover strategy-focused marketing and data-driven decision-making. Session II focuses on increasing marketing ROIs; analyzing and understanding buying behaviors; and developing an analytical framework for creating marketing strategies.

Register for these five schools at *cues.org/schools*.

CEO INSTITUTE III: *STRATEGIC LEADERSHIP DEVELOPMENT*
May 1-6
Darden School of Business
University of Virginia

CUES GOVERNANCE LEADERSHIP INSTITUTE™
June 12-15
Rotman School of Management
University of Toronto

SUPERVISORY COMMITTEE DEVELOPMENT SEMINAR
June 13-14
Omni Grove Park Inn, Asheville, N.C.

CUES DIRECTOR STRATEGY SEMINAR
June 13-15
Omni Grove Park Inn, Asheville, N.C.

DIRECTOR RISK & COMPLIANCE SEMINAR
June 15-16
Omni Grove Park Inn, Asheville, N.C.

CUES ADVANCED DIRECTOR STRATEGY SEMINAR NEW
June 16-17
Omni Grove Park Inn, Asheville, N.C.

MERGERS & ACQUISITIONS INSTITUTE™ NEW
June 27-30
University of Chicago
Booth School of Business

CUES SCHOOL OF CONSUMER LENDING™
July 18-19
Crowne Plaza Seattle

CUES ADVANCED SCHOOL OF CONSUMER LENDING™
July 20-21
Crowne Plaza Seattle

CUES SCHOOL OF BUSINESS LENDING™ II: *FINANCIAL ANALYSIS AND DIAGNOSTIC ASSESSMENT*
July 18-22
Crowne Plaza Seattle

CUES SCHOOL OF STRATEGIC MARKETING™ I
July 18-20
Crowne Plaza Seattle

CUES SCHOOL OF STRATEGIC MARKETING™ II
July 21-22
Crowne Plaza Seattle

STRATEGIC INNOVATION INSTITUTE™ II
July 31-Aug. 5
Stanford Graduate School of Business
Stanford University

CEO INSTITUTE II: *ORGANIZATIONAL EFFECTIVENESS (SUMMER SESSION)*
Aug. 7-12
Samuel Curtis Johnson Graduate School of Management
Cornell University

CEO INSTITUTE III: *STRATEGIC LEADERSHIP DEVELOPMENT (SUMMER SESSION)*
Aug. 21-26
Darden School of Business
University of Virginia

EXECU/NET™
Aug. 28-31
Tenaya Lodge, Fish Camp, Calif.

BOARD CHAIR DEVELOPMENT SEMINAR
Sept. 12-13
Inn and Spa at Loretto, Santa Fe, N.M.

CUES ADVANCED SCHOOL OF BUSINESS LENDING™: *COMMERCIAL REAL ESTATE LENDING*
Sept. 12-16
Inn and Spa at Loretto, Santa Fe, N.M.

CUES DIRECTOR DEVELOPMENT SEMINAR
Sept. 14-16
Inn and Spa at Loretto, Santa Fe, N.M.

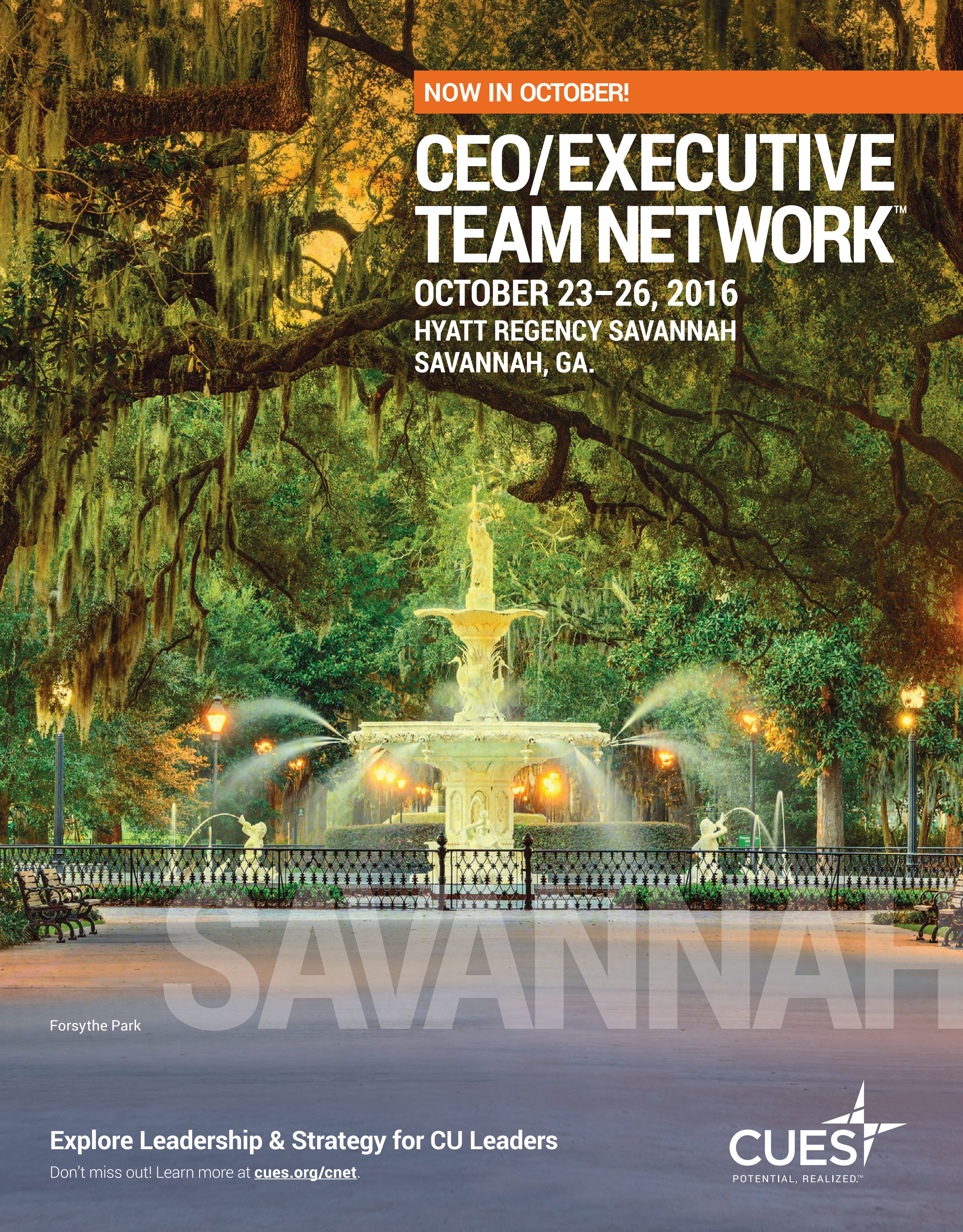
STRATEGIC INNOVATION INSTITUTE™ I, HOSTED AT MIT
Sept. 25-30
MIT Sloan School of Management,
Massachusetts Institute of Technology
Cambridge, Mass.

CUES SCHOOL OF APPLIED STRATEGIC MANAGEMENT™
Sept. 26-29
Charleston Marriott, Charleston, S.C.

CUES SCHOOL OF ENTERPRISE RISK MANAGEMENT™
Sept. 26-30
Charleston Marriott, Charleston, S.C.

CUES SCHOOL OF BUSINESS LENDING™ III: *STRATEGIC BUSINESS LENDING*
Sept. 26-30
Charleston Marriott, Charleston, S.C.

Note: CU directors are encouraged to attend events listed in *blue*.
For all the future CUES events, including local CUES Council meetings, visit *cues.org/calendar*.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Retiring CEOs: Don't Put on the Cruise Control

By Scott McClymonds

A good friend of mine is CEO of a small community bank, and has done some remarkable things with it. He sees retirement on the very near horizon, and is reluctant to make any changes, even if they make perfect sense. He uses phrases like, "I'm on cruise control" and, "Our model works great and I don't see a need to make any changes."

This is not the first time I've heard this theme. Not long ago the operations manager of a bank told me, "I like your proposal and it makes sense. However, many members of our team are retiring in the next five years, and I think it would be hard to get buy-in to your changes."

Let's really zoom out now to a bigger picture issue. If you are a CEO, you owe it to your team to keep growing and developing yourself because their livelihoods and careers depend on a high level of engagement from you.

If you go on cruise control as you start to see retirement approaching, it demoralizes the people below you who want to do great things for the CU.

I remember this phenomenon at a previous employer. My peers and I offered up innovative ideas, only to be rejected by senior managers who were approaching retirement. Many of us threw up our hands and thought, "What's the point?"

It doesn't have to be this way, though. I run across plenty of credit union CEOs near retirement age who are still going into each day, guns blazing. They're looking realistically and unselfishly at the needs of the organization as they near their departure, and are continuing to innovate and develop the people around them.

Cruise control is dangerous to an organization and, in my opinion, selfish. I understand folks have paid their dues, are perhaps burned out, and are looking for a transition. That's normal and understandable.

However, when I consider such people as Moses, Ronald Reagan, Peter Drucker (all of whom made big contributions late in life), my encouraging word is, despite your proximity to retirement age, you have not yet reached your potential, and still have much more to contribute.

Instead of looking at the runway and putting your feet up, use your experience to grow, innovate, and develop those around you.

Scott McClymonds *is principal of CEO Velocity Consulting and Coaching (*www.ceovelocity.com*).*

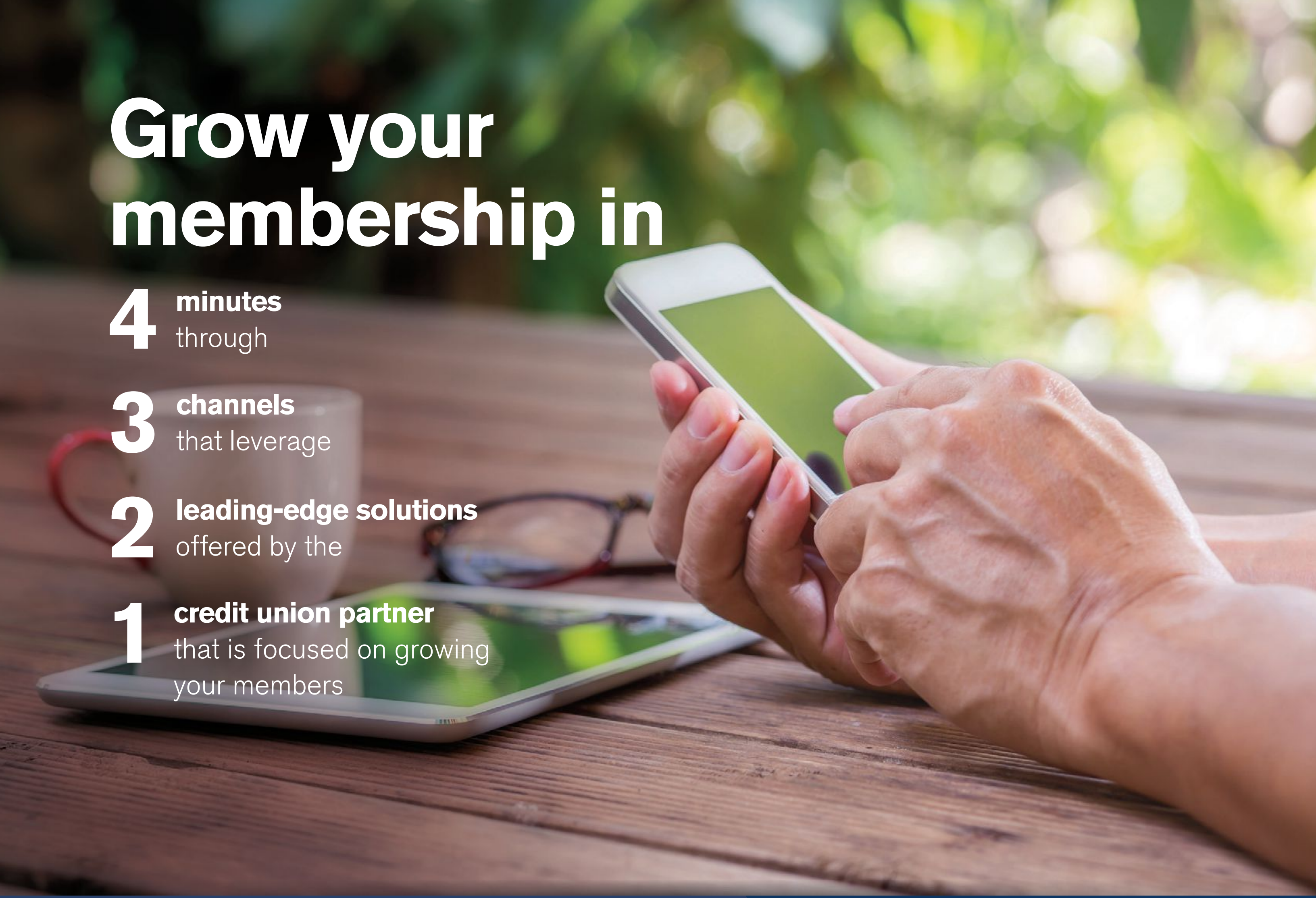
Add your thoughts to this post in the comments section at *cues.org/nocruisecontrol*.

Recent Posts

"As the strategic marketers/branders leading our CUs' charges, we must be effective at leveraging data to create value-based relationships with our members. Then, we must figure out how to deploy this deep member knowledge effectively over digital interfaces and transforming branches." CUES member Nav Khanna, CSME, CCE, CIE, EVP/strategy and innovation at $2.4 billion Travis Credit Union (*www.traviscu.org*), Vacaville, Calif., in "An Insider Look: CUES School of Strategic Marketing" on CUES Skybox: *cues.org/insidelook*. Learn more about this two-part school at *cues.org/sosm*.

"You can have all the company-funded lunches, parties, and fun breakroom toys you want and still not have a real, effective culture. Conversely, you can be so budget-strapped that your employees have to bring their own coffee to work and still have a powerful culture that drives your business." Gabe Krajicek, CEO of Kasasa (*www.kasasa.com*), Austin, Texas, in "Culture Doesn't Equal Employee Perks": *cues.org/culturevsperks*.

"If you think about it, credit union members may well cross over between financial services delivery channels more than credit union leaders communicate across departments!" Butch Leonardson, director of IT leadership for CUES Supplier member and strategic provider Cornerstone Advisors Inc. (*www.crnrstone.com*), Scottsdale, Ariz., and lead instructor for CUES School of IT Leadership™ (*cues.org/soitl*), in "Get Past 'Swim Lane' Organizational Structures": *cues.org/swimlanes*.



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