CU MANAGEMENT

AUGUST 2018 • IN-DEPTH INFORMATION FOR CREDIT UNION LEADERS

COMPENSATION *at Cruising Speed*

Executive pay keeps pace with economic and industry gains.

MOBILE MARKETING
Know the trends before acting

DEPOSIT ACQUISITION
A big success at Bellco CU

COLLECTIONS
How personalization helps

Contents

AUGUST 2018

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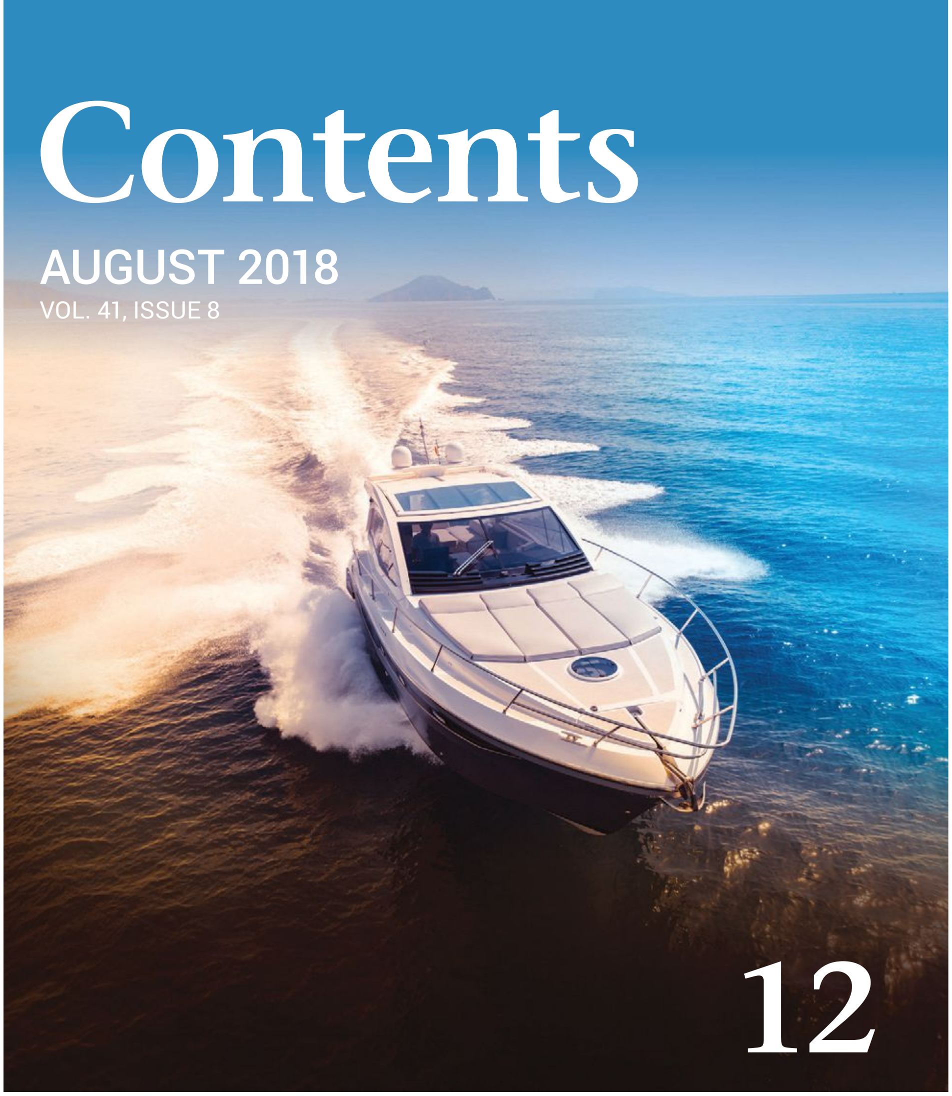

FEATURES

Contents

ARTICLES

24

“We wanted to offer our members what they were asking for: a competitive yield and a chance to participate in rising rates. We hit that target, but then it became a case of being too successful.”

Candice Aragon, VP/marketing at Bellco Credit Union on the CU’s CD promotion. Read more in “A Cool Deposits Strategy,” p. 30.

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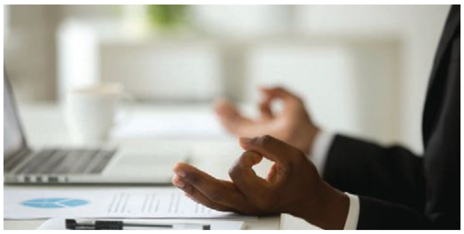

myCUES App

4 Steps to Workplace Wellness

Prioritizing mental health is in your CU's best interest.

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

Video

What's the Big Deal About Protecting Privacy?

Are your credit union's products and services designed to take privacy into consideration? Bianca Lopes, identity strategist and speaker at CUES' CEO/ Executive Team Network™ (*cues.org/cnet*), discusses what privacy means today and why protecting your members' privacy matters.

cues.org/0718ccubeprivacyvid

CUES Podcast

Episode 58: Generational Studies

Jeff Fromm, president of FutureCast, and speaker at CUES 2018 Execu/Net™ (*cues.org/en*), discusses the importance of engagement across generations and securing millennial loyalty.

cues.org/podcast58

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LET'S CONNECT

Comments, suggestions and letters can be sent to **theresa@cues.org**.

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More *Money*

When it comes to compensation, more is more. CUES' latest data on credit union compensation is in, showing an average 7.3 percent increase in base salary plus bonus for credit union CEOs in 2017.

That is quite a bit higher than the national average. As we report in our cover story, "Cruising Speed," the average raise across all positions and industries was 3 percent last year (*worldatwork.org*). For CEOs, the average was 5 percent, according to an Equilar study (*tinyurl.com/yanpqnjl*).

The *CUES Executive Compensation Survey* (*cues.org/ecs*) also shows pay increases for 17 other credit union executive positions in 2017, ranging from a 2 percent to an almost 9 percent increase.

"If you've had five years of steady salary increases, even a 5 percent increase in bonus based on salary is still really good. It's based on a much larger number than where we were five or six years ago," says Michael Becher, CPA, vice president of Industry Insights (*industryinsights.com*), Dublin, Ohio, which administers the CUES survey. Read more on p. 12.

Staying up to date on industry compensation trends is a key part of any succession plan, but especially one for CEO succession. Your credit union should consider salary scenarios for hiring an internal versus an external successor, as well as how much you are willing to pay to get top talent. Read all 10 steps for creating a strong succession plan in "Planning a Helpful Handoff," p. 22.

More is also more when it comes to CUES membership. CUES is rolling out its new 2019 membership options, with *more* benefits, *more* resources and *more* value. This translates to *more* opportunities to accelerate your team's development and reach your credit union's goals. Learn more at *cues.org/2019membership*.

Theresa Witham

Theresa Witham
Managing Editor/Publisher

YOUR THOUGHTS

WHY DO YOU THINK CREDIT UNION EXECS CONTINUE TO RECEIVE HEALTHY PAY INCREASES?

>> Email your answer to **theresa@cues.org**.

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CO-OP FINANCIAL SERVICES

LETTERS TO THE EDITOR

INTERPRETING THE 2018 ECONOMY

I typically find *CU Management* to be an informative and interesting read; however, the Skybox column titled "Early 2018 Economy a Roller Coaster" on p. 46 of the June 2018 edition was disappointing. (Read the full version at *cues.org/040918skybox*.)

First, the article is factually incorrect. To note one example, it states, "The Fed's own balance sheet has added an additional $3.5 trillion to the nation's debt of $21 trillion." The Fed actually has no debt outstanding and simply purchased U.S. government debt that was already on the market. Therefore, the Fed did not "add to" the national debt with these purchases. If this were the case, then my CU "added to" the national debt when we purchased $250 million in federal securities.

Second, the article contains misunderstandings of basic economic principles. For example, the article states, "The Fed does not need to increase the funds rate with inflation at goal and unemployment *below* goal."

The Fed has a dual mandate to balance the competing economic forces of inflation and unemployment. The accepted targets or goals referred to in the article for the Fed are 2 percent inflation and 4 percent unemployment. Yes, we are currently at about 2 percent for inflation, however, at under 4 percent unemployment we are not simply *below* goal (as stated)—but, since lower is better—we have actually *surpassed* the goal.

Accordingly, the Fed has achieved both goals (and over-achieved on one) and, as such, should be raising rates in fear inflation will soon exceed the targeted 2 percent level. Bottom line, in direct contradiction to the article, the data utilized actually indicates an increase in rates is appropriate.

I actively follow economic data and seek out diverse interpretations of the data. I find this helps challenge my thinking and often results in new understandings of economic trends. Unfortunately, your article fails to support its point of view with either accurate data or cohesive economic thought.

In closing, for both an informed and even-handed presentation of economic trends, I would recommend Steve Rick at CUNA Mutual Group. Steve is an excellent economist and he understands how interest rates and economic trends impact credit unions.

CUES member Joe Mirachi
President/CEO
Launch FCU
Merritt Island, Fla.

AUTHOR'S RESPONSE

Questioning economic thought and forecasting is wise, so I laud Mr. Mirachi's letter to the editor and encourage him and others to do more. The substance of Mr. Mirachi's comments are really clarification and definition.

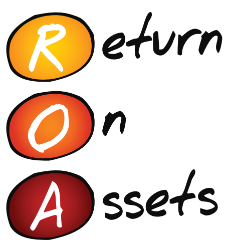
I worked directly with former Fed Chairs Greenspan and Bernanke for over 20 years. Their view of the dual mandate of inflation and unemployment was long-term. There appears to be agreement the inflation goal is being met. The unemployment goal is not met. Using the labor department's metric of U6 for unemployment, which includes all phases of unemployed but employable people, is a long-term perspective. Currently, U6 is 7.6 percent while U3 is 3.9 percent. Former Fed Chair Janet Yellen preferred U3, which is a shorter perspective. Choose the unemployment measurement that fits your economic perspective.

There are several ways the government can get money to spend other than taxes. One is to issue debt and spend the money from the issuance. Another is to print more greenbacks. Still another is to borrow money from the funds of government entities, such as Social Security.

Finally, since the Fed is really a bank, it can create money. When the Fed purchased bonds of banks and credit unions with its Quantitative Easing programs, it created money. Who pays for the $3.5 trillion the Fed created? Yet, isn't the $3.5 trillion increasing the Fed's balance sheet like I.O.U.s? Just like the money Congress borrows from Social Security is an I.O.U.? Add up all the I.O.U.s, the issued debt and money and you get the total "debt" of a country. This is a very simplified form of the approach used to measure a country's total debt by the IMF, World Bank and others.

G. Michael Moebs
Economist & CEO
Moebs Services
Lake Forest, Ill.

ANOTHER WAY TO CONSIDER CECL DATA



I enjoyed the read on the impact of CECL on current year earnings ("Look Beyond the Data" from the July issue of *CU Management*, *cues.org/0718look*). Once again, regulation is making it more difficult to digest financial information. That being said, a simple workaround to help credit unions and their board members better understand financial performance is to compute what I call "real-time ROA" as a footnote on the income statement. Real-time ROA simply replaces provision for loan loss expense (an anticipated expense for an unknown event) with net charge-offs (actual losses, when they occur). This gives readers of financial statements a look at operating performance from another angle to reduce confusion when CECL goes live.

Mike Higgins Jr.
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Cruising *Speed*

EXECUTIVE COMPENSATION KEEPS PACE WITH STRONG ECONOMY AND INDUSTRY GAINS.

BY KAREN BANKSTON

Continued steady gains in the national economy and credit union industry helped set the pace for healthy salary and bonus increases for CEOs and other executives over the past year, according to the 2018 *CUES Executive Compensation Survey* (*cues.org/ecs*).

Base salary and bonus increases for credit union CEOs averaged 7.3 percent over 2017, which is consistent with both strong gross domestic product growth and reports from the National Credit Union Administration of 5.9 percent annualized asset growth and 5 percent membership gains at federally insured credit unions for the first quarter of this year (*tinyurl.com/ycump2ae*).

In lockstep with those trends, the average base plus bonus for CEOs across all asset ranges increased from $364,981 in 2017 to $391,749 in the same-sample survey (limited to credit unions participating in both years to more clearly indicate trends). Across the same sample, the average base salary for chief executives rose 7.4 percent to $328,485, and total compensation increased an average 7.5 percent to $397,661.

"That level of compensation is not surprising given the state of our economy, which has seen continual growth over the past five years," says Michael Becher, CPA, vice president of Industry Insights (*industryinsights.com*), Dublin, Ohio, which administers the CUES survey. "But it's obviously good news for credit union executives to see that their compensation is trending at a higher rate than the GDP [2.2 percent] and the annual WorldatWork survey," which continues to come in at around 3 percent for raises across all positions and industries (*worldatwork.org*).

Across asset categories, the 2018 CUES survey reports, average base plus bonus pay ranged from $117,031 among the CEOs of credit unions with less than $50 million in assets to $648,541 for the chief executives of $1 billion-plus organizations.

Most other credit union executives posted salary and bonus hikes above average in comparison to all U.S. business sectors as well. Median base plus bonus increases, from same-sample results, ranged from 2.3 percent for senior CUSO executives to 8 percent for business lending executives, 8.1 percent for marketing executives, and 8.8 percent for second executive officers.

Total compensation for members of the executive team ranged from a median of $241,803 for executive vice presidents (up 5.2 percent from 2017) and

$211,722 for legal counsel executives (up 5.9 percent) to $119,755 for top compliance officers (up 4.6 percent) and $115,383 for regional branch managers (up 6 percent).

BONUS PAY LEVELS OFF

CEOs of almost nine in 10 participating credit unions (87.7 percent, up from 84.4 percent in 2017) were eligible to receive bonuses over the past year. At 13.3 percent, the average bonus paid by participating organizations offering incentive pay seems in step with other compensation trends but is down from last year's 16.8 percent.

If that trend continues and incentive pay increases level off, it could be a sign of boards agreeing that the credit union movement has achieved a balance in executive salaries and bonuses, Becher suggests. Double-digit incentive awards calculated as a percentage of base salaries that have risen consistently in recent years still provide a healthy incentive.

"If you've had five years of steady salary increases, even a 5 percent increase in bonus based on salary is still really good. It's based on a much larger number than where we were five or six years ago," he notes.

A leveling off in bonuses might also reflect the pace of growth across the industry. "While we're in a growth state, it's slow and steady growth. That's not bad. It allows organizations to better plan and budget for the future," Becher adds. "It's a good place to be, with base salaries finally reaching a level on par with others in financial services, so that credit unions don't need to rely on bonuses so much."

Bonus eligibility is most common among the largest credit unions: 97.7 percent of $1 billion-plus organizations offer incentive pay to their chief executives, in comparison to 75 percent of financial cooperatives with less than $50 million in assets. Bonuses as a percentage of base pay also vary according to asset size, ranging from 5.2 percent among the smallest credit unions participating in the survey to 24.1 percent at the largest.

The top factors in determining CEO bonuses were earnings (cited by 64.1 percent of participants), board evaluation (57.4 percent) and loan growth (52.5 percent). Though the rates have varied in small amounts from year to year, these factors have consistently topped survey responses for at least the last decade. Other factors include membership growth (23.2 percent) and satisfaction (22.2 percent), IDC's CAMEL ranking (15.9 percent), and share growth (18.3 percent).

"It's a good place to be, with base salaries finally reaching a level on par with others in financial services, so that credit unions don't need to rely on bonuses so much."
— Michael Becher, CPA

Moving to long-term benefits, 93.5 percent of responding credit unions offer 401(k) retirement plans for their CEOs; 44.5 percent have structured 457(b) plans; and 34.8 percent now offer 457(f) plans. A 457(b) plan permits executives to set aside more of their income to supplement retirement savings, while a 457(f) plan is an employer-funded deferred compensation program that a credit union might structure to reward and retain executives.

There is increasing interest among credit unions in split-dollar life insurance plans as an alternative to or supplement for 457(f) plans, with 28.5 percent of respondents offering that deferred compensation benefit to their CEOs, up from 14.1 percent in 2014.

EMPLOYMENT CONTRACT PRACTICES

For the second year, the executive compensation survey included questions about CEO contracts. Almost half (45.7 percent) of participating credit unions have negotiated employment contracts with their chief executives. The most common lengths of those contracts are three years (37.1 percent), five or more years (32.9 percent), and one year (16.8 percent).

In terms of contract components, 83.2 percent of respondents reported addressing severance pay; 53 percent included change-in-control provisions (setting out the disposition of executive benefits in the event of a merger or major shift in board member-

Base *Salary*

Salary paid for a job performed. Does not include benefits, overtime, incentive premiums or any pay element other than base salary.

Bonus/*Incentive*

Bonus is defined as additional cash compensation paid to an individual on a discretionary basis; not based on predetermined standards or goals. An incentive is contingent cash compensation based on successfully achieving predetermined goals. For the purposes of this survey, bonus and incentive amounts should be combined to report actual amount paid for both bonus and incentive awards over the past year.

Total *Compensation*

The sum total of an executive's base salary, annual actual bonus or incentive amount, paid in the last 12 months, plus other taxable compensation. This does not include contributions to deferred compensation plans, credit union contributions to 401(k) plans or pension plans.

The combination of a strong economy, low unemployment and mass turnover at the top means that "a lot of companies will be looking for good people."

— Michael Becher, CPA

ship and direction); and 37.1 percent spelled out continuation of certain benefits post-termination. Less than a third of contracts (32.6 percent) offered by participating credit unions include a covenant not to solicit, which typically is structured to prohibit the departing executive from recruiting employees for a set period of time.

TRANSITIONS AT THE TOP

In addition to economic trends, survey data align with national demographics as well, signaling an impending generational shift in the C-suite. Among CEO respondents, 81.6 percent have worked in the financial services industry for more than 20 years, up from 75.1 percent five years ago. Almost half (45.5 percent) are more than 30 years into their financial services careers.

As executives of the baby-boom generation retire in increasing numbers, some business sectors may see a downward trend in executive compensation as long-time leaders commanding salaries that recognize their many years of service are replaced with successors with salaries that reflect fewer years on the job, Becher notes.

Those transitions could have a ripple effect across the hierarchy of business organizations and across overall compensation levels, as newer executives, mid-level managers and employees hired to fill entry-level positions left open by a progression of promotions begin to amass on-the-job experience—and the salaries that come with that, he explains.

On the other hand, the combination of a strong economy, low unemployment and mass turnover at the top means credit unions will likely face stiff competition in executive recruitment. The bottom line is that "a lot of companies will be looking for good people," Becher cautions.

To ensure that they are offering compensation in line with top candidates' expectations, credit unions should look past the executive summary of the CUES survey to dig into specific data, he recommends. As statistical modeling of the survey data demonstrates, a credit union's asset size has the greatest influence on salary levels; this relationship is evident in the accompanying tables on CEO and other selected executive compensation by asset range. A specific search to narrow asset range can provide a clearer picture on competitive compensation offers, especially when combined with such search factors as years of experience and level of education.

Focusing geographically by region and size of metro market can help dial in more closely to market expectations for compensation offers that reflect relative cost of living, Becher notes.

Subscribers to the CUES survey can generate customized comparisons to peer aggregates based on asset size, membership base size, full-time equivalent employees, loan portfolio

2018 Median *CEO Compensation*

	Base Salary	Base + Bonus	Total Comp
All Assets Categories	$246,240	$275,339	$278,575
Less than $50 million	$113,900	$119,941	$122,125
$50-$69 million	$114,764	$124,764	$129,764
$70-$99 million	$145,832	$153,250	$153,250
$100-$199 million	$172,239	$187,850	$189,135
$200-$399 million	$229,496	$251,240	$255,256
$400-$599 million	$305,240	$342,716	$342,716
$600-$999 million	$361,422	$413,155	$417,775
$1 billion or more	$504,493	$614,781	$627,002

NOTE: *These results include all respondent data from the 2018 survey.*

CEO Salaries
(Increase over Previous Year Average Results/All Asset Sizes)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Base Salary	7.4%	7.2%	7.0%	4.6%	7.8%	6.43%	4.93%	4.37%	3.62%	5.37%
Base + Bonus	7.3%	7.7%	7.1%	5.7%	10.0%	8.40%	5.93%	5.01%	2.54%	4.76%
Total Comp	7.5%	7.8%	6.8%	5.5%	9.5%	8.18%	5.83%	5.07%	2.39%	4.87%

NOTE: *These results reflect "same sample" reporting. That is, they represent the data only of credit unions that participated in both years of the survey, which permits more direct comparison.*

size, region, state, metro size of headquarters location and field of membership, among other options to filter data to assess compensation trends in their markets.

Karen Bankston *is a long-time contributor to* CU Management *and writes about credit unions, membership growth, marketing, operations and technology. She is the proprietor of Precision Prose, Eugene, Ore.*

Executives' Median Base Salary
+ Bonus Comparison

	2018	2017	Change
CEO	$341,420	$321,540	6.2%
Executive Vice President	$239,803	$229,110	4.7%
Second Executive Officer*	$172,736	$158,703	8.8%
Chief Operating Officer	$208,613	$196,520	6.2%
Chief Operations Officer	$174,885	$162,797	7.4%
Chief Financial Officer	$200,487	$187,400	7.0%
Chief Lending Officer	$172,862	$160,406	7.8%
Branch/Member Service Executive	$157,507	$148,750	5.9%
Marketing Executive	$140,565	$130,000	8.1%
Human Resources Executive	$158,525	$147,002	7.8.%
Info Systems/E-Commerce Executive	$165,000	$152,372	8.3.%
Senior CUSO Executive	$194,708	$190,247	2.3%
Business Lending Executive	$173,358	$160,521	8.0%
Business Development Executive	$119,000	$113,484	4.9.%
Legal Counsel Executive	$201,360	$185,273	8.7%
Regional Branch Management Executive	$115,383	$108,887	6.0%
Top Mortgage Lending Officer	$147,729	$138,562	6.6%
Top Compliance Officer	$115,230	$110,274	4.5%

NOTE: *These results reflect "same sample" reporting. That is, they represent the data only of credit unions that participated in both years of the survey, which permits more direct comparison.*

**The Second Executive Officer was not reported as a separate standalone position, so there likely is some double-reporting of salaries of executives serving as Executive Vice President, CFO, COO, etc., who are also designated as the second-in-command at their credit unions.*

MORE ON COMPENSATION

CUES Executive Compensation Survey (*cues.org/esc*)

CUES Employee Salary Survey (*cues.org/ess*)

Credit Unions Face New Executive Compensation Rules Under Tax Reform (*cues.org/0418tax*)

Six Executive Skills Worth Paying For (*cues.org/0218fromjohn*)

Retirement Benefits a Versatile Exec Reward (*cues.org/0218retirement*)

Talent Competition (*cues.org/0118talent*)

Median Base + Bonus Compensation
for Selected Execs Across Asset Ranges

	All Assets	< $100 Million	$100-249 Million	$250-499 Million	$500-999 Million	$1 Billion+
Chief Operations Officer	$147,093	$68,094	$109,725	$148,223	$192,011	$256,687
Chief Financial Officer	$160,793	$88,200	$118,000	$145,135	$202,992	$290,514
Chief Lending Officer	$154,000	$75,247	$101,661	$138,000	$183,912	$242,778
Marketing Executive	$122,708	$56,064	$83,432	$109,000	$153,000	$177,026
HR Executive	$140,828	$58,983	$79,165	$112,000	$149,784	$203,524

NOTE: *These results include all respondent data from the 2018 survey.*

Set a Higher *Bar*

MAKE IT HARDER FOR THE COMPETITION TO HIRE AWAY YOUR EXECUTIVES BY TAILORING THEIR COMPENSATION PACKAGES TO MEET INDIVIDUAL NEEDS.

BY PETER SULLIVAN

As we learned in this issue's cover story (beginning on p. 12), credit union executive compensation has continued its steady climb. It's also clear that non-qualified deferred compensation plans represent a significant part of that overall compensation.

According to the 2018 *CUES Executive Compensation Survey (cues.org/ecs)*, base salaries and total compensation increased for each of the 19 executive positions studied. The positions with the highest increase in median total compensation from 2017 to 2018 were information systems/e-commerce, at 8.2 percent, and business lending, at 8 percent.

CEOs were also among the top five in total compensation growth in 2018 (7.6 percent). The most prevalent benefit offered by credit unions to augment CEO total compensation is a 457(b) plan, offered by 44.5 percent of the credit unions surveyed by CUES.

After 457(b) plans and not including 401(k) plans, the most-offered CEO benefits measured by the CUES survey are supplemental life insurance (39.6 percent); a 457(f) plan (34.8 percent); split-dollar life insurance (28.8 percent), and medical insurance premium reimbursement (23.8 percent).

It's worth noting that split-dollar life insurance has gained 14.4 percentage points since 2014. CUNA Mutual Group data also shows growth in the use of split-dollar life insurance. The company reports that its assets under management for collateral assignment split-dollar life insurance increased almost 50 percent from year-end 2014 through 2017.

RETAIN TALENT BY TAILORING BENEFITS

Bonuses and salary increases are certainly strong motivators for executives. They're a fitting means to reward good performance. But they're also easy for a competitor to top.

In contrast, non-qualified deferred compensation and split-dollar insurance plans make it more expensive for competitors to poach your best talent. The agreements for these benefits can specify that recipients receive them only if they stay employed by the credit union for a specified period. So, a competitor has a higher bar to clear than simply offering a higher salary and/or bonus.

Another advantage of non-qualified plans is that they can be tailored to an individual executive's needs. Credit unions can shape plans to executives' specific situations, including:

- **Life stage:** Executives who have young children likely have different needs than those who have college-age children or are nearing retirement.
- **Role in the CU's succession plan**: An executive vice president, COO or CFO you're grooming to replace the CEO within a few years will probably need a different incentive than a lending vice president you're hoping to keep on staff for at least another five years, to provide stability through the CEO transition.
- **Length of service**: A leader who's given you decades of excellent service can be rewarded appropriately, outside of the standard salary and bonus structure. This sends a message to those next in line about how your CU rewards loyalty and success.
- **Likelihood of recruitment from competitors:** If your CU has executives with especially sought-after skills—remember the IS/e-commerce and business lending executives' total compensation increases shown above?—you may need unique solutions to hold onto them.

By adapting deferred compensation programs to these types of circumstances, you're proving to your best executives that you will treat them as individuals, not commodities.

Credit unions use non-qualified deferred compensation and split-dollar plans for three key purposes; I call them the "three Rs."

1. RECRUITMENT

Employment agreements for new execs can include a provision for a deferred compensation or split-dollar insurance plan to be implemented within a specific period—say, 18 to 24 months—with the board's approval. That should help bolster your pitch to prospective hires.

If you're recruiting executives from commercial financial institutions, you may be competing against benefits that, by law, CUs can't offer. You may need to show such candidates some tangible evidence that you can compete in the total compensation arena.

On the other hand, if your candidates are coming from not-for-profit organizations, they may already be familiar with 457 plans and split-dollar arrangements. In fact, as these products become more ubiquitous, highly sought-after candidates may *expect* them to be offered.

2. RETENTION

A 457(f) plan is especially well suited to retention, because it can be designed to pay off at regular intervals, rather than only when an executive retires.

The rules for 457(f) plans can require that recipients remain employed by a CU for a specific amount of time, or they won't receive the 457(f) plan payouts. A 457(f) plan helps CUs manage risk in other ways, too.

For example, CUs can use a variety of investment vehicles to fund 457(f) plans. National Credit Union Administration regulations allow credit unions to fund non-qualified deferred compensation plans with investments that are otherwise non-permissible. Some of these investments offer higher risk for higher projected earnings. Or CUs may choose extremely conservative investments to fund 457(f) plans.

Another risk-management feature of 457(f) plans is that the credit union retains access to the assets within the plans. If the participating executive leaves the credit union or is let go for cause, the 457(f) assets are freed up for other purposes.

The main advantage of 457(f) plans for executives is that, unlike 401(k) or 457(b) plans, 457(f) plans don't have IRS contribution limits. The size of 457(f) plans can be adjusted to suit the priorities of the executive and the CU. Or it can be sized to respond to market conditions.

Of course, it's more than just rules and regulations that make 457(f) and other products effective for retention. It's also the CU's commitment and show of faith in offering them. Those can't be quantified, but they should never be discounted.

3. RETIREMENT

For highly paid credit union employees, replacing any given percentage of their working salary with retirement income is more difficult than it is for lower-paid employees.

A CU's 401(k) and/or defined benefit pension plan, plus Social Security, could easily replace 60 percent to 80 percent of a modestly paid employee's working income. But IRS and ERISA rules, among other restrictions, mean that these benefits can only replace a far lower percentage of a highly paid executive's working income.

A 457(b) plan acts basically like an addition to a 401(k) plan. Although the credit union owns the assets in the plan, the executive is fully vested from the beginning. The credit union and the executive can contribute to a 457(b), but the contributions have an annual maximum (which is $18,500 in 2018).

A split-dollar life insurance arrangement can also augment an executive's retirement income. In the collateral assignment split-dollar form of this arrangement (also called "loan regime split-dollar"), the CU issues a loan to the executive to cover the insurance premiums. The death benefit is split between the credit union and the executive to ensure repayment of the loan.

The executive can take distributions from the policy's cash value for supplemental retirement income, and the remaining death benefit proceeds (after any necessary repayment to the credit union) go to the executive's beneficiaries.

ALIGN WITH STRATEGY

As important as it is to align executive benefits with the executive's needs, it's just as important that these benefits align with your credit union's long-term strategy.

The average credit union size continues to increase, reflecting mergers and growing overall membership. With greater size comes greater responsibility throughout the C-suite, and greater demand for top executive talent.

Credit union boards and executives should consider more than simply ratcheting up overall executive compensation. They should continually review how each executive or recruit serves its overall goals, and design compensation packages accordingly.

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MORE ON EXEC BENEFITS

Retirement Benefits a Versatile Exec Reward (*cues.org/0218retirement*)

How Holes Appear in Executive Benefits Plans (*cues.org/1117holes*)

7 Key Risks of Funding Benefits Programs (*cues.org/0718keyrisks*)

Adjusting Deferred Compensation (*cues.org/061818skybox*)

Mastering *Mobile Marketing*

KNOW THE TRENDS BEFORE DECIDING ON YOUR STRATEGY AND TACTICS.

BY STEPHANIE SCHWENN SEBRING

Despite explosive growth in mobile advertising and its impact in nearly all facets of marketing, credit unions have lagged getting into the game. Mastering mobile means feeling comfortable in the mobile landscape—as well as understanding and implementing the right tools (or finding a partner that can).

"Since consumers do most everything from mobile today, or at least start their research there, mobile can encompass everything from traditional display ads, search engine optimization and marketing to push notifications," says Hilary Reed, founder and chief strategist for Empower Strategic Solutions (*empower-strategies.com*), Yardley, Pa. "A robust mobile app, mobile-responsive web presence, integrated email marketing, as well as cross-device and mobile retargeting are equally important."

AD SPEND AND OTHER TRENDS

Successfully navigating the robust and ever-changing mobile landscape starts with identifying mobile ad trends, and understanding the ad options available and the role data plays in targeting and customization.

Currently, mobile is driving a phenomenal increase in ad spend. *AdAge.com* reports that digital ad dollars boomed in 2017, increasing 21 percent to $88 billion (*tinyurl.com/yc6s9kbt*). According to a report from the Interactive Advertising Bureau (*iab.com*), mobile captured the majority of these ad dollars, comprising 57 percent of the digital pie, or about $50 billion. Mobile is expected to account for 69.9 percent of all digital advertising and will surpass television as the leading advertising medium this year according to an article on *eMarketer.com* (*tinyurl.com/yckmugq5*).

"Advertisers are pouring dollars into mobile due to growing mobile commerce activity," says Corey McNair, forecasting analyst and author of eMarketer's latest report, *US Ad Spending: Facebook and Google to Capture Over One-Quarter of the*

Market. In the above eMarketer article, he notes that conversions from mobile display ad placements have already surpassed those of desktop and will surpass TV.

Some additional mobile marketing trends to track as you formulate your strategy include:

- Banner ads continue to be one of the most popular mobile ad formats, according to bannersnack.com (*tinyurl.com/ycclzmty*).
- Video is becoming increasingly vital for brand awareness, loyalty and conversions. Per digital marketing resource ClickZ (*tinyurl.com/y7u8lzkb*), it is one of the most engaging and successful ways to connect with the user.
- Native ads (that look and feel like part of the app, website or content around them) are becoming the norm and are projected to comprise 74 percent of all mobile ads by 2021, reports Business Insider (*tinyurl.com/za9vh8u*).

THE BIG PICTURE

Mobile advertising can be an important part of a savvy credit union's overall marketing strategy.

"When used as a part of a multi-pronged approach, sharing your messages and ads via a smartphone, tablet or perhaps a wearable, you create brand loyalty and drive conversions," says Elisa Rode, president of Kearley & Co. (*kearley.com*), a strategic marketing firm based in Fort Worth, Texas. "You also meet consumers where they're spending their time—on their mobile devices."

Consider, too, that if you *exclude* mobile from your overall digital advertising, it can create a fractured approach. "Some businesses don't understand mobile advertising," Rode says. "They may be unsure, even if they're doing plenty of digital advertising. And while it's possible to buy desktop-only advertising, it's not a best practice and rarely successful on its own."

Mobile advertising goals should support your overall marketing plan and include more than just vanity metrics, such as followers or likes. "Creating a roadmap of what you want to accomplish with your mobile strategy is the essential first step," Reed says.

Within your mobile advertising strategy, credit union marketers will want to consider targeting, data and personalization, and retargeting.

Targeting is the crème de la crème of mobile ad capabilities. Mobile ad targeting enables you to leverage just about any personal demographic as well as physical location or type of device, even the music or news a user prefers, to bring the right ad to that person, Reed says.

"Using geofencing tools, an ad can appear based on a specific address, neighborhood or business location, even an event. What better way to target your members than by serving an ad based on location—where members shop, [at] the organizations they support or when visiting your branch?"

Mobile advertising is a wonderful way to grow membership in many age groups and demographics, and its ability to target is a principal benefit, adds Rode. "As credit unions, we seem to fall short on marketing to specific demographics, possibly because it's simply easier (and takes fewer resources) to blanket an entire community with one message instead of breaking down community targets into demographics or, more specifically, into psychographics." (These are classifications of people according to their attitudes, aspirations and other psychological criteria.)

> **"To be relevant and have traction, your mobile messaging should engage members while helping them to solve a problem in their day-to-day lives."**
> — Elisa Rode

CUs also tend not to have the time, budget or internal support to target, test and refine their messaging. But Rode says that by embracing mobile's ability to segment, they can laser-target ads in ways just not possible in traditional broadcast channels.

Additionally, credit unions can leverage member data to personalize ad offers. Take advantage of your MCIF or CRM data as well as appended demographics to customize your mobile marketing, Reed advises. This can include using variable data to display rate offers, customizing a loan offer by vehicle type or selecting imagery that appeals to a particular audience. All can be segmented using such demographic data as age, gender and income.

No matter what type of mobile ad you place, Reed believes that consumers will likely tune you out if you don't personalize the ad for their needs.

"For instance, the message 'Check out our home equity rates!' could be an extreme turn-off to the non-homeowner. So, use your data and customize your messages to targeted markets."

Despite the plethora of information at your fingertips, use discretion, Reed cautions. "With certain aspects of mobile, such as push notifications or email marketing, be careful not to push the boundaries of privacy," she says. "Avoid statements such as, 'We see that you haven't used your credit card this month.' Personalize your messages but also create a balance. There is a limit of what you should share."

Reed also notes that if you're not retargeting your ads, you're missing out. "Consumers have become accustomed to retargeted ads—presenting the same ad to the same consumer on various devices and often through multiple channels (such as Facebook, Google and email). For my clients, mobile and cross-device retargeting have been extremely beneficial."

MOBILE AD OPTIONS

Like most organizations, credit unions have limited budgets for advertising and must choose how to spend. In the mobile ad arena, options include static or animated banner display ads, text messages, video and audio.

Banner display ads—These are a color graphics "ad unit," according to the Mobile Marketing Association (*mmaglobal.com*). They can be "flash banner ads, static ads or animated GIF banner ads," notes Reed, adding, "An ad unit is defined typically by display size—for example, 300 by 250 [pixels]."

Banner ads can be placed in any location on a mobile website and must be clickable by the end user. Ensure your ad is mobile-responsive and resizes to match the user's mobile screen dimensions and capabilities; avoid graphics that display with poor quality when resized smaller (*tinyurl.com/mmastandards*).

"Display ads are a dominant component in mobile marketing. Used appropriately, they can support your vision, message and goals as well as garner leads," says Rode. "They can be animated or still graphics, though animation is not as popular as it used to be. Placement can be within an app or via an interrupter (pop-up) screen. Display ads are prevalent because they're non-intrusive and do not interrupt the user's activity."

SMS messages or push notifications—These are text-only, but many devices offer a click-to-call or click-to-web option and may display links and underlining of URLs and phone numbers to encourage conversion rates, says the MMA. It's also important to verify that phone numbers are functional and within a receiver's locale. The corresponding landing page should always relate to the original text message.

"Text, SMS and push notifications are components of mobile

Mobile Adoption Stars: *Michigan State University FCU*

$4 billion Michigan State University Federal Credit Union (*msufcu.org*), East Lansing, Mich., emphasizes the value of creating a unique mobile experience for members. The focus has paid off: A whopping 85 percent of the CU's members have downloaded its mobile app as of April 30.

"Over the past few years, we realized mobile was an important path to secure member loyalty and growth. We've made it a priority ever since to enhance our mobile offerings," says CUES member Deidre Davis, CMO for MSUFCU. "Today, our app is more than just a convenience. It's easy to use, provides money management features, and creates opportunities for us to communicate and engage with our members."

The CU recently added "My Offers" to the app's design as a standard feature, with no need to opt in. My Offers connects the member to relevant promotions and news under three categories: targeted product and service offers, community events, and such member exclusives as access to free credit scores and discounted tickets to events.

"We segment which members will see a specific offer," explains Davis. "Offers are primarily presented based on the member's geographical region. But we hope to expand the personalization of offers so that members see offers that are of specific interest to them first. Based on member feedback, presenting members with offers based on location (i.e., where they live) has been successful thus far."

In 2018, the CU launched another mobile feature, "Local Loyalty," which offers members discounts when they use (swipe) their MSUFCU Visa debit or credit cards at local retailers. Local Loyalty promotes area businesses within the app and displays discounts available to the member.

MSUFCU also promotes products, services or events via interrupter screens (pop-ups) when the member logs into the mobile app. "These screens let the member click to learn more on a product targeted to their needs," adds Davis. "It's a full screen prompting an action, such as 'dismiss for now,' 'dismiss (for always),' or 'learn more.' We also use interrupter screens to notify members of recent updates to the app."

As a case in point, MSUFCU sponsored "It All Adds Up" in November 2017, through which it donated a penny to Ele's Place (*elesplace.org*), a healing center for grieving children and teens, each time participating members swiped their debit or credit cards. Members received an interrupter screen after logging into the app. It displayed the promotion's details and the ability to opt in. Over the promotion's 30-day period, the credit union donated almost $5,000 to the charity.

"Another way we promote specific products within the app is placing ads in between the share/loan 'cards' (or sections) on the account summary screen," explains Davis. "As members scroll through their accounts, they see ads relevant to their needs—for instance, earning 0.25 percent more on a new certificate or buying discounted tickets to Cedar Point [a nearby amusement park in Ohio]. These ads have enhanced our mobile marketing efforts by creating additional awareness for products and services that are beneficial to our members," Davis continues.

Making mobile a priority has resulted in an outstanding mobile experience for members, as evidenced by impressive usage levels—in May of this year, more than 65 percent of users logged in, which is about 55 percent of all members. "Connecting with members and enhancing their experiences when they engage with MSUFCU has underscored the importance of mobile in MSUFCU's future," concludes Davis.

but not the primary driver of a robust campaign for our industry," explains Rode. "They're more suited for supplemental efforts, such as opting into loyalty programs, or perhaps to inform members of rate changes or that a loan approval is waiting."

Video—These are short clips (ideally 120 seconds or less, according to the MMA) used to promote a variety of products or services, even brand loyalty. Videos can entertain, educate and help you connect with just about any audience. Some users view the video with sound; others do not, making subtitles a necessity.

Completion rates in 2016 were the highest for 15- and 30-second clips, with 30-second clips having the highest completion rate at 75 percent, according to marketingcharts.com (*tinyurl.com/ybnt789s*).

Native ads—These blend with the look, feel and voice of the platform and are growing in popularity for just about any mobile ad format. They're also considered less intrusive than traditional types of advertising. Social media platforms and top web publishers are embracing the native ad approach, citing an enhanced user experience and greater effectiveness. (View the top native ad examples from 2017 at *tinyurl.com/nativeadinst*.)

GETTING STARTED

There are easy ways to launch a mobile ad campaign. For example, try a basic banner ad that links to a content-rich landing page. "Use it as a tie-in with other marketing messages based on your marketing plan's goals and the demographic you're targeting," adds Rode. "Or try a short video clip explaining a product recorded with your smartphone or camera featuring a recognizable employee."

When buying mobile ads:

Try Google—Most purchasers buy through a network, like Google Display Network or Bing, says Rode. Ad networks allow you to submit your ad content to a provider, who will then display it to your target audience—based on demographics and other data you specify—across the websites and apps within that network. Google offers exceptional reporting, can help you track results and detect fraudulent clicks, and reimburses you for fraudulent activity.

"Groups are trying to sell marketers on the idea they have access to a more robust ad network. But in most cases, it's the same network," explains Rode. "And while there are other ad networks out there, in my opinion, Google is the most robust and widely used."

Purchase by demographic—For example, if you're selling mortgages in the Dallas market, don't buy an ad on Realtor.com, says Rode. Instead, select the demographics that fit the home buyer in the Dallas area. Your ad ends up in a lot of places, and you cast a broader net for your prospects.

Perform due diligence—Be especially careful when it comes to fraud. Rode cautions that bots can visit your ad, show an exaggerated number of ad hits or exhaust your budget for pay-per-click ads.

"Be careful with third-party [ad] providers," she says. "Look for reputable partners with analytics that are reasonable, not through the roof. Ask for past results, too." For a given product or service campaign, was there a bump in the client's portfolio? Look for a partner that can showcase hard results (conversions and purchases) as well as impressions and click-through rates.

Always think mobile-first—For maximum success, not only should your website be 100 percent mobile responsive, but so should your online membership and loan applications.

"Not having a mobile responsive website can be a problem, especially if you haven't updated it in the last few years," Reed says. "This will pose an even bigger problem within the next year due to the new indexing of mobile websites."

In 2016, Google announced it would begin indexing websites based on a company's mobile (not desktop) site.

"For your site to rank higher, your mobile presence must be top-notch," stresses Reed. "Top-notch" means being fully optimized for SEO (including keywords, meta tags and descriptions), have the correct sizing and proportions for mobile, and be ADA-compliant.

Personalized content will also drive content consumption and require catering to specific demographics at specific times via their preferred mobile devices. Ultimately, offering rich, meaningful content will improve ROI and conversion rates as well as the user's mobile experience, Reed says.

Because CU marketers are often under-resourced, it's vital to understand mobile's potential and best practices and to find resources to help you navigate the space, concludes Rode.

"A strategic, cohesive approach is critical—one that re-evaluates your ad spend, embraces your data and brand, and takes advantage of where—and (on) which devices—members are spending their time. Beyond a doubt, to be relevant and have traction, your mobile messaging should engage members while helping them to solve a problem in their day-to-day lives."

Stephanie Schwenn Sebring *established and managed the marketing departments for three CUs before launching her business. As owner of Fab Prose & Professional Writing, she assists CUs, industry suppliers and any company wanting great content and a clear brand voice. Follow her on* Twitter@fabprose.

MORE ON MOBILE

Inside Marketing: Mobile Versus Desktop (*cues.org/0718 insidemarketing*)

Video Marketing Essentials (*cues.org/0718 videoessentials*)

Mobile Surprises, Challenges and Rewards (*cues.org/072318skybox*)

Mobile Game Changers (*cues.org/0617mobile*)

CUES School of Strategic Marketing™ I, June 16-18, Seattle (*cues.org/ssm1*)

CUES School of Strategic Marketing™ II, June 19-20, Seattle (*cues.org/ssm2*)

Planning a *Helpful Handoff*

10 STEPS TO EFFECTIVELY PASS THE BALL TO A NEW CEO

BY JEN LAWRENCE

In January of this year, Niagara Falls Memorial Medical Federal Credit Union lost its third CEO in three months.

According to an article in *Buffalo Business First* (*bizjournals.com/buffalo*), when faced with another CEO search, the small credit union, with less than $5 million in assets, opted to be absorbed into $177 million Niagara's Choice Federal Credit Union (*niagaraschoice.org*), Niagara Falls, N.Y.

Although there were likely a number of factors that dictated the credit union's decision to look at a merger as a way to best serve its client base, CEO turnover was a factor. And indeed, all credit unions should have a CEO succession plan in place to mitigate the risk associated with a CEO's departure.

According to Dottie Schindlinger, VP/governance technology evangelist at Diligent (*diligent.com*), New York, the circumstances surrounding a CEO's departure tend to fall into three basic categories: the planned departure, the sudden unexpected departure and a departure at the board's discretion.

The planned departure: By far, the most common scenario is a planned CEO departure, such as retirement. Many credit union boards will face this over the next decade. The 2018 *CUES Executive Compensation Survey* (*cues.org/ecs*) finds that 60 percent of current CU CEOs plan to retire within the next 10 years; of those, half plan to retire in the next five.

In other cases of planned departure, a CEO might recognize that he or she is not the right person to move the organization forward or may simply want a change. The planned departure is the best-case scenario, as typically the board has time to make arrangements, including working with the outgoing CEO to find a successor.

The sudden and unexpected departure: A CEO can leave suddenly for a variety of reasons, including ill health, death, family problems or another job opportunity. Whatever the reason, a sudden departure can leave a board scrambling to find a replacement. There are many stories in the credit union world of CEOs leaving in the middle of a regulatory review or a major organizational change. If a board does not have a clear plan in place for dealing with an unexpected departure, the shift can result in turmoil.

Departure at the board's discretion: Sometimes a CEO is no longer up to the task of leading an organization but does not recognize this himself or herself. In this case, the board needs to make plans to hire a replacement and remove the current CEO. This can be the most difficult scenario for a board to undertake, as the recruiting might have to be done in secret with no guidance from the incumbent executive. It's hard to manage a search like this discreetly, but that's how it's best done.

Whatever the circumstances, a good succession plan will help the process go much more smoothly. We've interviewed a number of governance experts and credit union executives to gather the best advice for how to set up and maintain yours.

1. HAVE A DETAILED, WRITTEN PLAN

In 2013, a joint report from CUES and the Clarkson Centre for Business Ethics and Board Effectiveness at the University of Toronto's Rotman School of Management (*cues.org/0913benchmark*), indicated that while 85 percent of credit unions have a formal CEO succession plan in place, only 20 percent of respondents knew when their current CEO planned to retire.

While many boards have a succession plan, it might need to be more detailed to be truly helpful. In the succession plan of Stamford Federal Credit Union (*stamfordcu.org*), Stamford, Conn., the $60 million organization has defined a formal president/CEO change "audit." This includes doing such things as ensuring the locks have been updated and that the outgoing CEO is no longer authorized to do business on behalf of the credit union. Stamford FCU's succession plan is available for download to members who log in on CUES Members Share (*cues.org/memshare*) and CUES Director Members Share (*cues.org/dirmemshare*).

2. PLAN FOR A VARIETY OF CONTINGENCIES

Matt Fullbrook, manager of the Clarkson Centre for Board Effectiveness and a faculty member for CUES Governance Leadership Institute™ (*cues.org/gli*), believes that many boards plan for "when everything goes well." Fewer boards plan for more difficult situations, such as the death of a CEO. Schindlinger believes that some boards have "some things they don't deal with because they seem hard to address." It's particularly important to look at the more difficult issues as part of the risk management process since these are the factors that can most often lead to organizational turmoil.

3. INVOLVE THE ENTIRE BOARD

Michael Daigneault, CCD, founder and CEO of CUES strategic provider Quantum Governance L3C (*quantumgovernance.net*), Vienna, Va., says, "The most important decision most boards ever make is who is going to be CEO." To that end, it is a process that should involve the entire board.

Daigneault emphasizes that the CEO recruitment process "cannot be delegated out." While a skilled recruiter or a subcommittee can be helpful in finding candidates, all members of the board must buy into the decisions made before, during and after the hiring of a new CEO.

> **"It's not a question of if, it's a question of when."**
> — Mike Magnavita

4. INVOLVE THE CURRENT CEO

A good CEO should help to groom his or her successor and develop a plan of action for a sudden or planned departure. Schindlinger recommends making this part of the CEO's responsibilities and holding the CEO accountable for making sure a succession strategy exists. "If you make it part of the CEO's performance evaluation, it will get done," she says.

Once a CEO has announced his or her intentions to depart, however, that leader's role in the process might change. Daigneault cautions that if a board has decided it needs a CEO who can take the organization in a new direction, it should be careful not to let the incumbent "unduly influence the situation or make the choice," as he or she may have a bias towards maintaining the status quo.

5. ALIGN THE ROLE WITH CURRENT STRATEGY

Each year, the board should make sure the succession plan is in line with the organization's strategy. The board needs to look at the organization and ask if it is doing the right things to serve its membership. If the current CEO's style is working well, the job description should be updated to capture that. If the board feels a different leadership style is needed, it can provide training to the current CEO or let this inform future hiring.

6. UNDERSTAND CREDIT UNION UNIQUENESS

Credit unions tend to have some organizational nuances, which can make the process even more complex. Fullbrook believes that credit union CEOs tend to "make decisions driven more by values than by the bottom line," as they are used to serving a membership rather than shareholders who expect earnings every quarter. When a CEO departs, the board must ensure that any external candidates it is considering understand the credit union's unique environment (or are truly ready to learn about it) or risk a clash of cultures.

7. PREPARE A SHORTLIST OF INTERNAL CEO CANDIDATES

According to D. Hilton Associates' 2015 SERP Survey (*tinyurl.com/dhiltonsurvey*), 56 percent of sitting CEOs were internal hires. At any given time, a board should know who inside the credit union could step into the CEO role should something happen to the incumbent.

While many boards will decide to look at both internal and external candidates, it isn't always necessary. For example,

Handling *Unexpected Succession*

3 KEYS TO SUCCESS

This past January, Franklin Mint Federal Credit Union Executive Vice President Mike Magnavita got the call nobody wants to receive.

John D. Unangst, Franklin Mint FCU's beloved president/CEO, had passed away unexpectedly over the weekend. Unangst had been with the Chadds Ford, Pa.-based credit union for more than 40 years, having grown the organization from a single branch and $1 million in assets to 37 branches with more than $1 billion in assets.

While such a personal and professional loss would have thrown many organizations into chaos, Franklin Mint FCU had put a succession plan in place four years before. And by Monday morning, the organization had put its plan into action.

A CUES member, Magnavita stepped into the role of president/CEO, a decision the board had already made. Magnavita and the credit union's chair, J. Patrick Killian, who's also commerce director of Delaware County, Pa., said three contributing factors helped them manage such a smooth transition.

1 STRONG COMMUNICATION BETWEEN THE BOARD AND NON-CEO EXECUTIVES

Unangst knew he would want to retire at some point and had established an "office of the president" that comprised himself, Magnavita (EVP/CFO), CUES member Cindy Wanamaker (COO), and CUES member Drew Stanley, CSE (chief strategy officer).

The four executives attended board meetings and would report to the board directly on financial, administrative and compliance issues that required board approval. This allowed each member of the executive team to build strong relationships with the board. Killian says, "To John Unangst' s credit, he created spokes to a wheel, which ensured that if one spoke was damaged or out of commission, the wheel would keep turning."

2 LEADERSHIP CULTURE

Unangst and the board knew that leadership skills should not be concentrated in one role. Franklin Mint FCU had its senior executives go through extensive leadership training and coaching. Magnavita said that Unangst had encouraged him to become president of the CUSO State Financial Network (*statefinancialnetwork.com*), a role that allowed him to act as a CEO. He had a chance to hone his skills, and the credit union's board "got to kick the tires a little bit" and see his leadership style in action.

Credit unions can encourage their senior executives to gain CEO experience by leading charities or other organizations and serving on their boards. That way, leadership style is visible before someone steps into the CEO role.

3 STRONG COMMUNICATIONS WITH MEMBERSHIP, STAFF AND REGULATORS

When a key person like a CEO departs, the membership and the regulators might worry. In the case of Franklin Mint FCU, the board and senior executives had a clear message for the membership when they opened the credit union for business that Monday morning. They assured the membership and regulators that Magnavita had assumed the role and, from their perspective, it would be business as usual.

Because the organization had been so well prepared on the business side of things, it was able to help members and staff—many of whom had known Unangst for years—through the grieving process. The credit union opened later than usual that Friday so employees could attend Unangst's memorial service.

"The most important decision most boards ever make is who is going to be CEO."

— Michael Daigneault, CCD

$1.1 billion Franklin Mint Federal Credit Union (*fmfcu.org*), Chadds Ford, Pa., decided not to look externally when its CEO passed away (see the sidebar, "Planning for Unexpected Succession," on the previous page). The credit union's leaders had already worked hard to groom a successor in CFO Mike Magnavita, a CUES member. And, according to Chair J. Patrick Killian, a CUES Director member, "When you have Babe Ruth on the team, don't look for a pinch hitter."

8. COMMUNICATE WITH THE REGULATORS

Credit unions must stay in good standing with the regulators, who often scrutinize the organization when there is a change in CEO. An organization should have a plan in place to contact the regulators immediately should a change in leadership occur. There should be several people in the organization who can handle an audit or review.

9. BE AWARE OF SALARY EXPECTATIONS

Schindlinger recommends that boards regularly evaluate the market to determine the compensation packages of CEOs at peer credit unions and other organizations that compete with credit unions for talent (see "Cruising Speed" on p. 12). Often, if someone has been promoted through the ranks, his or her salary will be lower than market. If the credit union needs to reach into another geographic location or financial services firm to find a CEO, it might not be able to afford the expected compensation. It's important to find out how much CEOs are earning and start building that into the business plan.

10. CONSIDER THE BOARD'S SUCCESSION PLAN, TOO

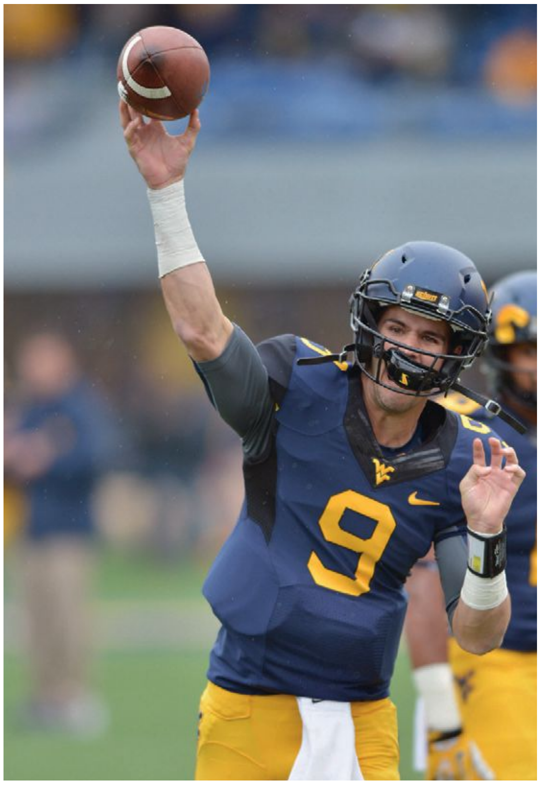
Schindlinger also believes that boards should consider their own composition when it comes to succession planning, as sometimes an organization's needs will outgrow the current skills of its board.

Two questions she urges boards to ask are: "Do the current board members bring the skills and insights to take our credit union where we need to go?" and "Do we have a system to ensure incoming board members can quickly get up to speed and begin adding value?"

If the board members are all at a similar age and stage, new members with fresh perspectives can be added to the team—and a clear board orientation and education strategy are critical to ensuring a strong board. A strong board is as important as a strong CEO, and the two should grow together.

If a credit union plans to exist beyond the tenure of its current CEO, it will need to go through a succession planning exercise at some point. By putting a succession planning process in place well in advance, credit unions can increase their chance of success. As recently appointed Franklin Mint FCU CEO Magnavita knows all too well, when it comes to a CEO's departure, "It's not a question of if, it's a question of when."

Jen Lawrence, *MBA, is a former investment banker, recruiter and corporate trainer who now writes about leadership and strategy. She is the author of* Engage the Fox: A Business Fable About Thinking Critically and Motivating Your Team.



MORE ON CEO SUCCESSION

Gaining Traction in Transition (*cues.org/0916gaining*)

CEO Relations section of the Center for Credit Union Board Excellence (*cues.org/ccube*)

Sample succession plans (*cues.org/memshare*) and (*cues.org/dirmemshare*)

CUES Executive Compensation Survey (*cues.org/ecs*)

CEO Assessment for Credit Unions (*cues.org/ceoassessment*)

Board Governance Assessment (*cues.org/bga*)

Director Skills Assessment (*cues.org/dsa*)

Completing the *Collections Puzzle*

TAKING A PERSONALIZED, MEMBER-CENTRIC APPROACH CAN PAY OFF.

BY KRISTIN GILPATRICK

Can you put the pieces of a member relationship together again after a loan delinquency? Most credit union collectors will give two answers: "probably" and "it depends."

Successful CU collectors base their decisions about when to modify the original agreement and when to assess a fee on both the member's circumstances and the CU's collections strategies and structures.

Collectors today are really salespeople looking for solutions to get you through financial troubles, notes collections consultant Karin Brown-Purtell, EVP of Lending Solutions Consulting Inc. (*rexcuadvice.com*), Elgin, Ill.

KEY MOMENTS

Brown-Purtell suggests that there are moments throughout the collections process when a CU has an extra good chance to help a member fix his or her financial situation.

"You have a relationship with that troubled debtor," she explains. "Most people don't stay in that spot forever," so it can be worth talking with the member and helping them recover.

"I preach that all the time—it's all about the relationship," she adds. "In my experience, you can fix most" member relationships.

"The sweet spot seems to be at the 10-day mark for most people who are late on payments." CUs are most successful in collecting payments up to 15 days late. "Many just need the reminder … and they pay the late fee almost as routine."

In fact, Kris Frantzen, senior product manager for the Lifecycle Management Suite at Temenos (*temenos.com*), headquartered in Geneva, Switzerland, says a CU client found that a percentage of habitually late payers depend on the CU's reminders.

"For the credit union, it's a late payment fee; for them, it's a $5 fee they pay for a reminder call," Frantzen says.

MORE ON COLLECTIONS

Collector position descriptions
CUES Members Share
(*cues.org/memshare*)

Lending Perspectives: The Future of Collections Is Self Service
(*cues.org/0318lendingperspectives*)

CUES School of Consumer Lending™
(*cues.org/socl*)

CUES Advanced School of Consumer Lending™
(*cues.org/advsocl*)

Ten to 15 days can also be good timing for an intervention, because that late payment might be the first red flag a CU sees in a member account, says Brown-Purtell.

As part of a CU's front line, collectors have a great opportunity to step in to save and even strengthen the relationship. For example, they could discover with one phone call that, because of sudden neighborhood decay, a member had to come up with $30,000 to *sell* a home on which she still owes $80,000 after the home appraised at $50,000 due to falling property values.

With creative work at the right moment from a savvy collector, the CU can help—"provided the member wants to be helped—put her financial pieces together again and eventually restore and even strengthen the member relationship," Brown-Purtell suggests. The collector could, for example, switch the member to a 0 percent credit card for six months.

WHEN TO BEND

"Our overriding collections strategy is all about the member relationship," notes CUES member Gary Giles, director of loan servicing and collections at $550 million Sun East Federal Credit Union (*suneast.org*), Bethlehem, Pa. Collections there are the collaborative effort of operations, call center, lending, member service and marketing.

"From loan origination and setting the late fee structure to implementing collections, our strategies are purposely not overly aggressive. They are a little about fee income and covering our costs of course, but they are a lot about member relationship."

Communication about a member's loan situation is key, echoes CUES member William Vogeney, chief revenue officer of $5.2 billion million Ent Credit Union (*ent.com*), Colorado Springs, Colo., who also authors the monthly "Lending Perspectives" column on *cues.org*.

"If a member is communicative, has told us what's going on, perhaps has a track record of previously paying his or her bills, we are very willing to help," he says, adding that the CU also looks at the likelihood of that member being able to improve his or her financial situation. For instance, if a borrower has lost his job and has marketable job skills, he should be able to recover his income. In contrast, a borrower on a fixed income who has spent himself into a near-bankruptcy situation may not have long-term potential for the CU.

Building *a Fee Structure*

A credit union's fee schedule should be part of the member relationship puzzle, stresses Larry Edgar-Smith, SVP/business solutions and product strategy at Temenos (*temenos.com*), headquartered in Geneva, Switzerland.

"What goes into development of a collection fees schedule should be regulations, the cost of certain collection activities, the type of loan, and information on member delinquency and profitability, but also credit union size and a bit of laissez-faire—what the market will bear—meaning when setting fees to charge, credit unions should be cognizant of their surroundings, of what fees are increasing or decreasing 'down the street.'"

In other words, developing a collections fee matrix is a "bit of science," Edgar-Smith says, one that could draw such data from a platform like Temenos' Lifecycle Management Suite. But, he adds, it's also "a bit of an art," as credit union management uses all that data to, say, apply fees within its member relationship philosophy—which can include the ability under certain circumstances to make individual exceptions to some late payments or fees and/or to reflect a credit union's comfort level with grace periods and marketplace comfort with prices.

Art, science and some advice from participants in CUES Net, CUES' members-only listserv, helped $39 million Olympia Credit Union (*olycu.org*) in Olympia, Wash., set its collection fee matrix, notes CUES member Tammy Doles-Roberts, CEO. "Prior to reaching out to other credit unions, we did not have a collection fee schedule at all. [Thanks to their input, suggestions and examples], now we have a matrix that we use to implement fees," such as a final delinquent letter ($30), prepare for repossession ($50) and cancel repossession ($35).

"These fees help pay for the staff time and resources to implement sending the letters, making calls or tracking down our collateral. We also needed to set up the system to implement these fees to assist us with the collection fees we could no longer recoup when we turned the debt over to a collection agency," she explains.

Vogeney says member relations can't be one-size-fits-all.

"Being a collector requires sort of a triage approach," he explains. "What accounts look like they won't be a long-term problem? Which ones need immediate action to resolve, like a repossession action? And then, determine which accounts need serious attention and a creative solution" for the member.

Ent CU uses the Temenos collections suite to manage such member information as income, collateral and credit quality, all important in deciding when, how and if to bend on the original loan terms.

"Perhaps you have a borrower who is upside-down (owes more than the value) on a high-mileage car," Vogeney says. "While we might otherwise be willing to reduce payments for a period of time, the negative equity situation will only get worse. [Or] let's say the member has previous credit problems, but we gave them a second chance. If they continue to have serious problems, ... they just can't or won't pay their bills."

"Bendability" could even apply beyond the 30-, 60- and 90-day payment periods or after a loan loss, but the individual situation would have to warrant it, says Vogeney.

"I'm a fan of a policy that might allow for some number of accounts to be reopened. For example, if a member caused the credit union a loss of, say, $10,000 five years ago, perhaps a matrix might allow that person to reopen an account if they repay 25 percent of the amount owed the credit union. However, credit unions may also implement a period of a year or so before the borrower is eligible for a loan," so the CU can track the member's current financial situation.

A CORNER PIECE

Credit relationship management tools (like the one Ent CU uses from Temenos) not only track a member's loan and payment status but also his or her ability to pay, recover financially and continue a relationship with the credit union.

"We don't want to treat all 90-day auto loans the same because [all] people are not the same," Frantzen says. "Technology helps us help credit unions do that, using basic and advanced analytics to see where collections efforts are best spent."

Any collections system has to collect, track and report on the profitability of each member; any past delinquencies; and both the relationship that member has now and has had with the CU in the past. It also should leverage such data as income and credit score to inform what any post-delinquency relationship could be, he notes.

Also at play, adds Larry Edgar-Smith, Temenos' SVP/business solutions and product strategy, is whether the CU gave the member concessions in the past. "If a member had a really high FICO score with an auto loan, the credit union may have already given concession on the rate, and so there is less bendability there."

With a good credit relationship management platform, staff will have the key information needed to work with the member from origination to payoff and/or collections, he says, noting that the system communicates all information to all staff at the same time.

In the end, each late payment and loan loss situation is an individual piece of a CU's collection structure and strategy puzzle. Although CUs will need to collect some late fees and write off some loans as losses, Edgar-Smith adds, "it's much more about relationships than fee income at credit unions."

Kristin Gilpatrick *is a freelance writer based in Wisconsin and a former editor of* CU Management *magazine.*

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What are the top issues for credit unions today?
In our discussions with credit unions, organic loan and membership growth is consistently a hot topic. Many are looking for ways to improve recapture programs to grow off-book loans and deepen the member relationship. Credit unions with large indirect portfolios want to grow direct auto loans to improve yields and expand lending opportunities.

Those looking to increase membership are exploring ways to safely lend deeper. This can be due to a saturated prime borrower market or as a means of differentiation. Ultimately, organic growth fosters relevance and all credit unions want to be relevant to their field of membership and the communities they serve.

How can credit unions be more successful?
Member insights and segmentation. One powerful tool to do this is trended data. It offers a broader view of members to inform growth strategies. For credit unions looking to increase direct lending, it identifies which members are paying the highest rates elsewhere within a healthy risk tolerance.

Using data can also find members who are most likely to open an auto loan, estimate total yearly annual card spend and predict the likelihood of opening an account (auto/personal/student loans, credit card, HELOC or mortgage).

Members expect their CUs to know who they are and what they need. Those that leverage deeper member insights to personalize messaging will differentiate themselves and find new ways to drive growth.

A Cool *Deposit Strategy*

IN RESPONSE TO RECEDING LIQUIDITY AND RISING RATES, BELLCO CU INNOVATES AND GETS SOME SURPRISING RESULTS.

BY RICHARD H. GAMBLE

Now that interest rates are climbing, members are shopping for the best ones, and credit unions are keeping a close eye on their depositors.

So far, the result is mostly predictable. Many CUs are gradually raising rates to be competitive on standard share certificates and to a lesser degree interest checking and savings accounts (see *cues.org/0718trying*). They also are introducing occasional certificate specials with higher rates and tailored maturities to attract new members and increase market share or to fund special lending opportunities.

After hibernating for close to 10 years, deposit competition and marketing are back, reports Kirk Kordeleski, CCE, senior managing partner and chief strategy officer at BIG Consulting (*big-fintech.com*), Tampa, Fla. For the first five years of the Great Recession, financial institutions had excess liquidity—high deposit levels and little loan demand—he reports. Then loans gradually started to catch up. Now the 150 largest CUs have seen double-digit loan growth and slowing deposit growth, so competition for relatively scarce deposits, along with rising market interest rates, has reignited competition and some bidding wars.

With so much uncertainty in the political and economic spheres, a flight to the safest available investments could be imminent, Kordeleski warns. "We aren't seeing it yet, but if it comes, we'll see another spike in liquidity, with low interest rates, low inflation and low loan demand. It may not happen, but credit unions should be prepared."

The clearly price-sensitive market is not especially innovative yet. Deposit products have changed little in 50 years, Kordeleski reports. "We just see tweaking of the same instruments." And financial institutions watch each other to stay competitive, so they pretty much behave as a herd, he explains.

However, there are exceptions that bear watching—credit unions that have left the beaten path to achieve big results. Predicting how consumers will respond to unfamiliar products can be full of surprises, as $4.6 billion Bellco Credit Union (*bellco.org*) in suburban Denver found out.

ADVENTURES IN INDEXING

In 2015, Bellco CU was experiencing high loan growth, particularly for auto and real estate loans, and needed to keep pace with deposits. The loan-to-deposit ratio had risen to 101 percent. In December 2015, the CU's asset liability committee, comprised of the senior management team, approved an innovative product—22-month and 44-month certificates (which the CU marketed with the name "Index Advantage") with rates indexed to the Fed funds rate, according to Tim Billings, VP/treasury and analytics. The certificates would pay a guaranteed spread of 80 to 120 basis points above the top of the Fed funds range. Depositors wouldn't risk locking in below-market rates but would see their returns rise with the market. Bellco CU's team thought this would surely be appealing to depositors.

But they were speculating. They weren't adopting anyone's off-the-shelf product that had a track record. It was a home-brewed product for Bellco CU, one that it hadn't tried since 2003.

"To place term CDs in a rising-rate environment, you must overcome the depositor's fear of locking in a rate that turns out to be low as the rate cycle progresses," Billings explains. "We hoped Index Advantage would both overcome depositors' fear of locking in low rates and help Bellco attract more term funding."

The CU rolled out the offering in the first quarter of 2016, with a local area and branch marketing campaign and waited to see what would happen. Leaders of the CU were prepared to see about $250 million in the indexed CDs—about $200 million in net new deposits, allowing for some shifting of deposits by current members, Billings reports.

The top of the Fed funds rate range (the index peg) was 50 basis points then, so the index pegged the CD yields at a positive spread of 80-90 basis points for the 22-month maturity and 110-120 basis points for the 44-month. While the Fed funds top rate stayed at 50 bps and CD yields in a range of 1.3 to 1.7 percent, the deposit inflows averaged about $2.5 to $3.5 million a month during the first year of the product in 2016. It was working as planned.

But as the economy strengthened, the Fed responded with a series of rapid-fire quarter-percent increases on Dec. 14, 2016; March 15, 2017; June 14, 2017; Dec. 13, 2017; and March 21, 2018. As rates on the CDs jumped in lock step, inflows surged to a high of $30 million a month in July 2017. At that point, the 22-month CDs were paying 2.05-2.15 percent, and the 44-month CDs 2.35-2.45 percent. On the low end, a $10,000 CD bought in February 2016 paid 1.8 percent APY at first; as this was written in June, it was paying 2.52 percent (top of the Fed funds range plus 80 bps) and would reprice to 2.77 percent on July 1.

HISTORY OF FED TARGET RANGES

Dec 16, 2008	0.0–0.25
Dec 16, 2015	0.25–0.50
Dec 14, 2016	0.50–0.75
Mar 15, 2017	0.75–1.00
Jun 14, 2017	1.00–1.25
Dec 13, 2017	1.25–1.50
Mar 21, 2018	1.50-1.75
Jun 13, 2018	1.75-2.00

> **"Our mission is to give the members what they want, while my job is to manage the interest rate exposure this sometimes entails."**
> — Tim Billings

The anticipated inflow of deposits turned into a flood. Bellco CU even stuck out nationally as offering one of the top rates on insured deposits for its two maturities and was spotlighted by Bankrate (*bankrate.com*) at *tinyurl.com/bellcoonbankrate*. "We saw a flood of money all at once," Billings recalls. "It was really starting to push up our cost of funds."

DRINKING FROM THE FIRE HOSE

Bellco CU had succeeded beyond its wildest dreams. The product was a mega-hit. But was it too much success?

The organization quickly capped depositors at $250,000 per Social Security number to limit the inflows, but that wasn't enough. Without enough loans to absorb all those deposits, the loan-to-deposit ratio hit 95 percent by August 2017, which is on the low end of the CU's target.

"We try to be as fully lent out as possible," Billings notes. And the new funds were expensive.

"What was planned to be cost-effective and started out as such, no longer was," he explains. "As the shape of the yield curve flattened, those deposits quickly became inefficiently priced." Fortunately, it was a promotion that could be canceled at any time, notes Bellco CU's VP/Marketing Candice Aragon.

And the CU did just that in August, being careful to give members one last chance to take advantage of the special before it was pulled in September 2017. Then the CU intentionally slowed down deposit growth to match its peers, Billings says.

Holders of $100,000 44-month CDs were earning 3.2 percent at press time, with the prospect of seeing more if the Fed raised rates again. Billings is ready. Bellco CU intends to run its balance sheet to neutralize whatever happens to interest rates.

"Our mission is to give the members what they want," he says, "while my job is to manage the interest rate exposure this sometimes entails."

But he can't completely immunize net interest margin. Over the course of the promotion, the CU's NIM fell from 3.62 percent to 3.29 percent, while its total deposits rose from $2.5 billion to $3.3 billion over the life of the certificate offering.

Bellco CU's profitability was only slightly affected.

"Our ROA is consistently above 0.9 percent and has been above 1 percent in recent years," he continues. "We've also added about $1.5 billion to the size of our assets." Return on assets for 2017, the year of the biggest influx of high-cost funds, was 0.96 percent. "While there was some effect from the higher cost of funds due to the index CDs, there were other factors involved, including slowing demand for loans and much higher term rates in the market," he explains.

Bellco CU's pricing formula for these certificates suffered a little from relying on the spread between overnight rates and two- and three-year rates. This led to inefficient pricing when the Fed started to raise rates.

"In hindsight, it would have been better to have indexed the CDs to something other than an overnight rate for a term issuance—something more like the two- and three-year Treasury rates," Billings concedes. "I think the change caught most investors and issuers by surprise because rates had been flat for eight years when we designed the product in 2015; most expected the yield curve to maintain its positive slope."

Aragon adds, "We wanted to offer our members what they were asking for: a competitive yield and a chance to participate in rising rates. We hit that target, but then it became a case of being too successful."

Having $340 million in sticky funds for a few years is a powerful trump card in Bellco CU's hands, however. "We followed massive, organic loan growth from 2013 to 2016 with a massive growth in deposits in 2016 and 2017," Aragon notes. "When we wanted to hit hyperdrive, we could do it. When we wanted to cool the growth, we could do that as well."

Billings has a treasurer's tools: If Bellco has more lending opportunities than deposits can fund, he buys brokered certificates or draws on the CU's line with the Federal Home Loan Bank. If there are more deposits than loans can absorb, he buys securities for the investment portfolio. But Bellco CU turns to the financial markets as a last resort, he says, always preferring to fund its loans with its own deposits and turn deposits into member loans as much as possible.

Bellco CU now has $240 million in 22-month indexed certificates that would mature between December 2017 and October 2019 and $99 million in 44-month indexed certificates that would mature between December 2019 and October 2023.

To nobody's surprise, very few of the certificates had been redeemed prior to maturity at press time. Bellco CU is sitting on a $340 million piece of term funding that Billings believes is likely to stay until maturity. The CU is proud of its 85-90 percent deposit retention rate, but he expects more of that certificates money to leave when the certificates mature. That said, 77 percent of the index certificate holders had at least one other account relationship with the CU besides the compulsory membership account, and 50 percent had still another account relationship. So the index certificate, he concludes, was successful not only in attracting significant deposit dollars but also in reinforcing deeper primary financial institution memberships.

ASSESSING THE CONSEQUENCES

The drop in NIM from 3.62 percent to 3.29 percent was modest. "Since this was a promotion, we were able to modify it as soon as we could see that it was trending high and asset rates were also rising," Billings explains.

THE HOME RUN THAT WASN'T

Bellco CU wasn't done innovating—or being surprised by market reaction. During the third quarter of 2015, the credit union introduced its Boost checking account. Open to existing or new members, the Boost account paid 2.25 percent interest on balances up to $25,000, provided account holders used a debit card at least 15 times a month at a point of sale, had at least one direct deposit monthly, and made at least one online contact a month. If qualifications were not met in any given month, the balance earned 0.05 percent interest. Balances above $25,000 earned 0.25 percent interest.

"We were willing to offer a very high interest rate on checking account balances, but we wanted the account to be their primary checking account," Billings explains. "Plus we wanted a little revenue from the debit swipe interchange to partially offset the above-market rate offered."

On paper, it looked like a home run if the cost of funds could be contained. It was a full-service checking account without fees and paying more than 2 percent over what regular checking accounts offered. If a depositor kept $25,000 in it, he or she earned $562 a year in interest income, compared to maybe $5.62 from traditional checking. There was virtually no downside.

Billings took a good look at the account when he joined Bellco CU, called Charles Schwab, cleaned out his personal investment account there and used the funds to open a Boost checking account at Bellco. "It was a no-brainer," he points out. "I could get close to the 30-year bond yield on a checking account balance with total liquidity, full checking services and few strings attached. What's not to like about that?"

But a lot of people didn't see it that way. "It has not been the runaway success that we envisioned," Aragon concedes. "We really expected more interest."

> **"Bellco's goal is to be different, more rewarding to our members in order to earn their loyalty and become their preferred financial partner across all products and services."**
> — Candice Aragon

Notably, Boost was not a flop. The CU has $180 million in Boost account balances, about 23 percent of its total checking account deposits. "We wanted to attract new members and capture their checking account activity and direct deposits," Billings explains. Only about 40 percent of those accounts qualify for the top rate; and average balances hover around just $5,000, bringing typical depositors who qualify only about $112 of annual interest income.

Just as the sweeping success of Bellco's indexed certificates had a downside, the underwhelming success of the Boost account has an upside. "Our cost of funds for those accounts is around 1 percent, and that's not counting the revenue from the debit swipes," Billings notes.

Unless a member can't handle the 15 debits, one direct deposit and one online visit, there appears to be no good reason for a Bellco CU member to keep a traditional checking account instead of a Boost account. But Bellco CU depositors still keep $580 million in traditional checking accounts. The credit union advertises the Boost account in its branches, and branch staffs are trained to point out when members could make better use of their money, but the migration seems to be stalled, Billings reports. "The return is there. The marketing is there. It's just one of those cases where many members did not see the value that we saw when we designed the product."

National analysts are not surprised. High-yield checking accounts don't fit everyone, notes Greg McBride, chief financial analyst at Bankrate, but for those depositors whom it fits—those that can keep a balance up to the cap and meet the other requirements—"it fits like a glove."

ENIGMAS OF CONSUMER BEHAVIOR

The generally tepid response to high-yield checking accounts shows that deposit marketing is again running into human nature, Kordeleski points out, and the fact that people will pass up a better deal just to avoid change.

"If something as basic as a checking account is set up and working, people don't want to do it over, even if it's in their best interest," he observes. And even though a 2.5 percent yield on a checking account balance up to $20,000 is a relatively huge improvement over a .02 percent yield, it's still just $500 a year, less if you don't have the funds to maintain the $20,000 balance. That's enough reward to overcome inertia among a select group of depositors but not enough to spark a mass movement, he suggests. Certificates are different because large sums can be involved and they aren't tied to transactions, he adds.

High-yield checking accounts were not hatched in the Bellco CU think tank. Google that term and you'll find dozens of insured depository financial institutions offering variations of the product. Most require a direct deposit, and interest rates vary from 1 percent to 4 percent. Caps generally run from $10,000 to $25,000 with debit volume between 10 and 18 a month. Looking at the Internet list, Bellco CU comes in on the high side of the rate and cap range but it's not really an outlier.

Is the credit union's experience surprising in light of what has happened to other financial institutions offering similar products? Bellco doesn't know. That's because its culture is internal, focused on members, Billings says. "We don't look at peers when we make plans. We aren't interested in being part of the herd, so we don't pay much attention to herd wisdom. We monitor peers and competitors defensively. It's our stated policy to offer rates that keep us in the top three on deposit products, so we watch that. But we aren't looking for someone we can follow."

"Bellco's goal," Aragon says, "is to be different, more rewarding to our members in order to earn their loyalty and become their preferred financial partner across all products and services. We like being different."

"Our deposit strategy is really just part of our balance sheet strategy," Billings explains. That strategy isn't bound to maturity matching, but the asset side is dominated by a $1.6 billion auto loan portfolio—fixed-rate loans with a two to two-and-a-half-year average life—and by a $500 million home equity loan portfolio that's largely floating rate. Having around $350 million of indexed certificates ended up being a good match for the floating rate home equity lines, he notes. "In the end, we are always learning from our members."

Richard H. Gamble *is a freelance writer based in Colorado and a member of Bellco Credit Union.*

MORE ON DEPOSITS

Taking Remote Deposits? The Rules Have Changed (*cues.org/071018skybox*)

Need a CD Stampede? (*cues.org/0718need*)

Trying to Be a Successful Deposit Strategist? (*cues.org/0718trying*)

CUES School of Applied Strategic Management™ (*cues.org/sasm*)

10 CUES® Next Top Credit Union *Exec Applicants Advance*

Public voting has ended and CUES Next Top Credit Union Exec has announced its Top 10 applicants for 2018. The NTCUE competition—held in partnership with DDJ Myers and powered by Currency—searches for emerging leaders age 35 and under.

"We were pleased to have had 163 worthy young credit union leaders nominated for this, our ninth year of competition. Of those nominated, 23 applied by submitting an entry video," says John Pembroke, CUES' President/CEO. "After putting them to a public vote, we were delighted to see the votes flood in; we had well over 3,200 this year."

The top five vote-getters automatically advanced to the Top 10 phase, and five additional applicants were chosen by a special judging panel of former NTCUE finalists to round out the Top 10.

Named to the Top 10 in the CUES Next Top Credit Union Exec competition are:

- Lorna Adams, 34, talent management specialist, Anheuser-Busch ECU, St. Louis, Miss.;
- Blaine Bartholomew, 35, AVP/member experience, Unitus Community CU, Portland;
- Lynette Cupps, 35, VP/organizational development, MAX CU, Montgomery, Ala.;
- Clark Duncan, 26, branch manager, Fort Knox FCU, Radcliff, Ky.;
- Aubrey Gallagher, 31, compliance assistant, Heartland CU, Hutchinson, Kans.;
- Brittany Martin, 24, business development specialist, Mill City CU, Minnetonka, Minn.;
- Jodi Maus, 33, talent development specialist, Central Minnesota CU, Melrose, Minn.;
- Mackenzie Schultz, 25, loan processor, Blackhawk Community CU, Janesville, Wis.;
- Symantha Sermino, 34, commercial loan processor, Northwest Community CU, Eugene, Ore.;
- Emily Strybosch, 31, brand specialist, Libro CU, London, Ontario.

They will now submit a blog post update about their project to *NextTopCreditUnionExec.com*. In addition, they'll each receive an executive coaching session from Silver CUESolutions provider DDJ Myers. A judging panel of two CUES members and Deedee Myers of DDJ Myers will then score the Top 10's applications and blog posts, narrowing the competition to the Final Five, who will move on to the finals. The five Finalists will receive additional coaching, airfare, accommodations and registration to CUES' CEO/Executive Team Network™ (*cues.org/cnet*), Nov. 5-7 in Nashville, where they will give their final presentations. The winner will receive further coaching, airfare, accommodations and registration for two CUES' CEO Institutes, a total prize package valued at $20,000.

Board Liaison *Listserv*

The CUES Board Liaison Listserv makes it easy to share information and seek advice from your peers. Recent discussions have included board education programs and planning annual meetings. The email listserv is exclusive to CUES members who are the designated board contact for their credit union. For more information, contact us at *cues@cues.org* or by phone at **800.252.2664** ext. **340**.

Webinars *on Tap*

The CUES Webinar series (*cues.org/webinars*) offers hot topics presented by industry experts. CUES members can attend all webinars for free and access a library of webinar playbacks.

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1 p.m. Central
Thinking Strategically & Building Deeper Member Relationships

AUGUST 23
1 p.m. Central
Advance Management of Your Lending Economic Engine

SEPTEMBER 13
1 p.m. Central
Hot Topics in Regulatory Compliance

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Knowledge and Networking *in Nashville*

This fall, join top credit union executives from across the U.S., Canada and beyond at an exceptional event in Music City. CUES' CEO/Executive Team Network™ (*cues.org/cnet*), Nov. 5-7 in Nashville, Tenn., combines hot industry topics with powerful networking. You'll learn from esteemed speakers about vital issues and trends, including strategy, security, data and identity, analytics, fintech and branding—plus you'll have the opportunity to participate in a cybersecurity and privacy panel with industry experts in addition to networking with your colleagues, peers and friends.

Attendees shouldn't lose sight of how exploring these areas fits in with strategy—no matter how "buzzy" the topics may seem. "Partnering" with fintech is a good example: "It's a bit overblown right now," says Steve Williams, partner at Cornerstone Advisors (*crnrstone.com*), Scottsdale, Ariz., a CUES Supplier member and strategic provider. "What's very important is that any partnering has to be extremely focused around some type of capability the credit union needs for its strategic plan." Even when offering a great product or solution, not all fintechs are willing to put in "the hard work of integrating into a credit union experience," Williams adds, which is key to a real partnership. (Watch his video on the subject at *cues.org/0618ccubefintechvid*.) You can hear more from Williams on fintech and strategy at his CEO/Executive Team Network session, "Strategic Growth: What Credit Unions Can Learn from Fintech." Follow that up with an examination of data protection and privacy—with an eye on both your fintech vendors and your own technology infrastructure—led by identity strategist, speaker and panel moderator Bianca Lopes.

Conference attendees can expect to not only walk away inspired, but to return home with real-world solutions ready to put into action at their credit unions. Credit union executives can learn more and register at *cues.org/cnet*.

Attend CUES CEO/Executive Team Network (*cues.org/cnet*), Nov. 5-7 in Nashville, Tenn.

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CEO/EXECUTIVE TEAM NETWORK™
Nov. 5-7
Westin Nashville
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VERTEX LIVE: MANAGEMENT DEVELOPMENT PROGRAM
Nov. 6-8
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Dec. 2-5
Hilton Waikoloa Village
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CUES SYMPOSIUM: A CEO/CHAIRMAN EXCHANGE
Jan. 27-31
Grand Hyatt Baha Mar
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EXECU/SUMMIT®
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CEO INSTITUTE I: *STRATEGIC PLANNING*
April 7-12
The Wharton School
University of Pennsylvania
Philadelphia

CEO INSTITUTE II: *ORGANIZATIONAL EFFECTIVENESS*
April 28-May 3
Samuel Curtis Johnson School of Management, Cornell University
Ithaca, N.Y.

Note: CU directors are encouraged to attend events listed in blue. For all future CUES events, visit *cues.org/calendar*.

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Purposeful Talent Development: *Are You Teaching 'Leading for Succeeding'?*

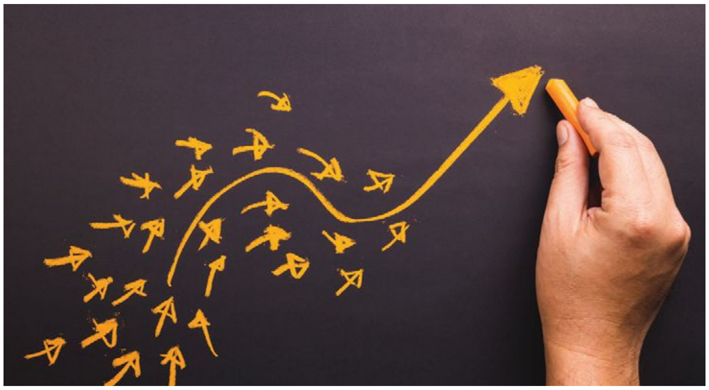
BY JENNIFER STANGL

"Excellence is not the opposite of failure." This interesting thought bears some reflection. Think about the people you've learned from throughout your career. Have you learned behaviors you want to emulate or avoid?

We know we can't learn excellence by studying failure, but many times this is what we do. As we move through our careers, we encounter what we consider to be "failed" leaders or leadership behaviors. We mentally make notes of the ways we don't want to lead. However, if we study failed leaders, we only identify ways to not fail, as opposed to ways to succeed.

The leaders we have in place today play a key role in our organization's future. We become effective leaders by learning from and engaging with other effective leaders. Therefore, we must consider whether our current leaders are the people we want mentoring and coaching our future leaders. Ask yourself:

- What are the strengths of our leaders? Do we leverage these strengths to develop our future leaders?
- Do our leaders recognize gaps and seek to fill them?
- What behaviors hinder the development of future leaders?
- Do we hold leaders accountable for behaving in alignment with our organizational mission and values?



To support the development of future leaders, we need current leaders to demonstrate behaviors that should be emulated, not avoided. To help make this happen, communicate the behaviors you want leaders in your organization to exhibit. Establish leadership competencies aligned to organizational success to increase self-awareness. Then encourage leaders to demonstrate, observe and provide feedback on those behaviors to future leaders. Current leaders can provide coaching and even be coached to build their skills within these competencies.

With this process in place, you'll give future leaders the opportunity to experience behaviors that will help them learn to succeed instead of teaching them how not to fail.

Jennifer Stangl *is CUES' director of professional development.*

Read the full post and leave a comment at cues.org/062518skybox.

Our Favorite *Recent Posts*

"A major disadvantage of the credit union charter is that credit unions cannot raise capital to grow and cannot use equity incentives to attract and motivate executives. A credit union board could easily determine that its fiduciary duty compels converting to a bank charter given that the credit union charter no longer offers any advantages (tax exemption) and a long list of disadvantages."

Stephen Morrissette, adjunct associate professor of strategic management at the University of Chicago Booth School of Business and lead faculty at CUES' Strategic Growth Institute™ (*cues.org/sgi*) in "The Latest Taxation Flare Up" on CUES Skybox: *cues.org/061118skybox*

"Rather than striving for in-house innovation, which is a high-priced gamble, credit unions may be better off finding really good technology partners and working with them on rapid integration."

John Janclaes, CCD, president/CEO of $1.7 billion Partners Federal Credit Union (*partnersfcu.org*), Burbank, Calif., CUES member and founder of The CEO Corner (*theceocorner.com*) in "Why Fast Integration Is the New Innovation" on CUES Skybox: *cues.org/060618skybox*

"Convenience is essential in our fast-paced world; consumers want to apply for an account from anywhere, at any time, and by any device or method they choose. They appreciate it when you simplify instructions, avoid repetition, use automatic formatting and offer cues to make corrections if they go astray. … If someone needs to interrupt an application and continue it later in another channel—mobile, online or branch—the transition needs to be seamless."

Jeff Sonderman, senior product manager of CUES Supplier member Fiserv (*fiserv.com*), Brookfield, Wis., in "Starting the Relationship Right" on CUES Skybox: *cues.org/062118skybox*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