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FEBRUARY 2018

The Sky Is Not the Limit

Five ways thriving business lending programs manage the regulatory cap

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

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Find Your Best Ideas

I am intrigued by the quote on p. 8 by Gert Garman. Culled from a video on her website (*broadperspective.net*), the quote notes all the different places we do our best thinking—in bed, in the shower, on a walk, while driving. Interestingly, these are all times when our minds are free to wander.

My mind frequently turns over problems I need to solve, especially when I'm driving. In recent months, I have twice passed my freeway exit as I pondered big ideas!

A creativity and innovation expert, Garman will use the Osborn-Parnes Creative Problem Solving model (*tinyurl.com/osborncps*) to help attendees of CUES' Execu/Summit® (*cues.org/es*) learn how to get unstuck, keep things fresh and continually innovate. Execu/Summit is the perfect place to hear her message. Taking place in March in Big Sky, Mont., the event offers learning sessions in the mornings and late afternoons, leaving midday free for skiing.

I can't think of a better way to process learning than with a big brain break, where your mind is free to follow its various thoughts to interesting and unique conclusions. Research (*tinyurl.com/workoutlearning*) backs up the theory that exercise boosts learning. Will we see you at Execu/Summit? If cold weather and skiing aren't for you, CUES has two additional events with a similar format: Execu/Blend™ (*cues.org/eb*) in April in Santa Rosa, Calif., and Execu/Net™ (*cues.org/en*) in August in Sedona, Ariz.

An industry problem that might benefit from your best thinking is the member business lending cap. In this case, we've done some of the hard work for you. Our cover story, "The Sky is *Not* the Limit," examines five ways credit unions are managing their member business lending programs in light of the regulatory limits. Some strategies—like loan participations—are widely used, while others—like an exemption from the cap that can be granted when a CU is designated to serve low-income communities—are less well known, says Larry Middleman, CEO of CU Business Group (*cubg.org*), Portland, Ore. Read more on p. 10.

Later this month, *CU Management* will present a brand-new digital publication called *Advancing Women*. This online-only, quarterly offering will provide information and inspiration for current and aspiring female credit union executives and the men who support them. Get a preview of the premier issue's feature article about mentoring on p. 24, where Annette Zimmerman, CEO of $470 million PrimeWay Federal Credit Union (*primewayfcu.com*) in Houston shares how she went from waitress to teller to CEO and the role that mentors played in her success. Read more in "Winning Goals" and watch *cumanagement.org* at the end of this month for the complete story.

Theresa Witham
Managing Editor/Publisher

P.S. Your copy of CU Management *will look different next month. We're putting the final touches on our brand-new design. Stay tuned!*

In-House Institute Trains Current, Future Managers

Deseret First Credit Union (*dfcu.com*) and a dozen current and future managers are learning as they go through its first Leadership Institute, developed in-house to hone participants' technical and people management skills.

Content for the program was developed by a management committee, which then passed its work on to the credit union's e-learning specialist to develop online modules with accompanying activities, says CUES member Spencer Park, VP/human resources for the $620 million Salt Lake City CU. Each module is supported with two to five hours of live training, training webinars and readings from business journals like the *Harvard Business Review* (*hbr.org*).

"A pivotal part of the institute is that current and prospective managers go through the program together as a cohort, and they are each assigned a mentor," Park says. "If they have questions, they can consult their mentor or work through it with their colleagues. Some activities require that they get feedback and input from their mentors."

The institute begins with a session on "Leading Through the Deseret First Mission, Values and Culture" and includes modules on HR, coaching, leadership, communication and active listening, time management and organization, integrity and ethics, and financial statements and ratios.

The concept for the institute grew out of employee survey feedback indicating a need for additional leadership training for managers. The first cohort of participants primarily includes new and prospective managers invited to participate in the program, though future institutes may offer the option to apply for enrollment, he notes. The second institute is scheduled to begin this spring.

In observing the first class going through the institute, "we've learned a lot," Park says. "We're already reordering and combining some modules, and we're developing an assignment for a big project applicable to their current departments that they will build as they go through the modules."

"Participants also say they'd like more assignments so they can apply what they've learned as they go," he adds. "They really appreciate that the modules are self-paced so they can access the learning management system when they have time, and they say they enjoy the team discussions and talking with each other about problems they're dealing with and getting [other participants'] advice.

"Where do you get your best ideas? What are you doing? … No one ever says when they're at work."

Gert Garman, owner, Broad Perspective, LLC (*broadperspective.net*). She will lead a session about creativity and innovation at Execu/Summit® (*cues.org/es*), set for March 11-16, in Big Sky, Mont.

PR After a Cyber Breach

Cybersecurity is a top concern for credit union leaders. What can you do if your CU experiences a data breach? How your organization responds will impact if and how quickly your reputation recovers after the incident. The guidelines below will help ensure your CU is prepared to minimize any PR nightmare that ensues if the unthinkable does happen.

1. Do you have an incident response plan in place? Proactivity is vital in crisis communications, and your credit union's executive team should be familiar with the plan. Stories can go viral in a matter of minutes; therefore, response windows have shrunk. You must create a statement that goes beyond the content of a news release; your team will likely need to craft statements for social media and your website, too.

2. Who will be your spokesperson? When determining who will be the face of the response, choose someone who has strong communication skills or prior experience interacting with media. This person should also hold a position of authority within the credit union. Once this spokesperson is identified, he or she should be trained on what information to disclose and the messaging to use.

Find two more guidelines in the full version of this article at *cues.org/0118prinsight*.

Targeting Distracted Driving

When tragedy struck close to home, with the death of an employee in an accident involving a distracted driver, $692 million Ideal Credit Union launched a "Stop the Texts, Stop the Wrecks" public awareness campaign with TV ads, an online pledge and social media posts to reinforce the message.

David Riggs, who started working for the credit union while he was still in high school, was 20 years old when he died from injuries suffered in the August 2013 collision. "Our employees embraced the opportunity to remember and honor David, and are very proud to be associated with this campaign," says Brian Sherrick, president/CEO of the Woodbury, Minn., credit union (*idealcu.com*). "David's family has been incredibly supportive and cooperative in developing and implementing the campaign."

David's older brothers, Matt and Mike, are featured in public service announcements urging people to take the pledge to put their phones away while they're driving. Those ads have run on TV stations in Minneapolis/St. Paul for the last two falls.

Minnesota Governor Mark Dayton proclaimed Aug. 17, 2017 "David Riggs Distracted Driving Awareness Day." To date, almost 800 people have accepted the online pledge (*idealcu.com/pledge*) not to text while driving, and Ideal CU promotes the campaign via Facebook and Twitter. The credit union has also incorporated the don't text and drive message into its "Money Talks" financial literacy program at Tartan High School, where David was a student, and into its summer Money Talks session, which is open to all young members.

The credit union continues to plan strategies to increase awareness and expand the reach of the campaign in 2018, Sherrick says.

"We are asking drivers to put the phone away when they get behind the wheel and become part of the solution, not the problem. Our board of directors has been very supportive and has given us the funding needed to run the month-long PSA campaigns," he adds.

Letters to the Editor

Tech Time: Slow and Steady Wins the Digital Transformation Race
(***cues.org/1017techtime***)

Great article! I've seen many a company forget its mission and its customers by failing to factor them into the digital equation. Empathy and trust—particularly where finances are involved—beat technological bells and whistles every time!

Sherry Judd Toplyn
Owner, Toplyn Communications LLC
twitter.com/SherryToplyn

The Corporate 'Why'
(***cues.org/1117why***)

Great focus and clarity, Brian [Thorne, CCE, CEO of $600 million Lakeland Credit Union, Bonnyville, Alberta]. Asking the "Why" question creates the opportunity for deep dialogue with both internal and external stakeholders.

Jim Lynn
Retired president/CEO, United Communities Credit Union (now Libro Credit Union), London, Ontario
Owner, Lynn Consulting Solutions

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Insights

"Email is a delicate long game. Beyond illegally spamming vast swaths of the population, there's no easy way to game or fast-track email marketing—you need to diligently work on growing an opt-in email list over time."

Tim McAlpine, president and creative director of Currency (*currencymarketing.ca*), Chilliwack, British Columbia, in "Young People Use Email!" p. 30

The Sky Is *Not* the Limit

Five ways thriving business lending programs manage the regulatory cap.

By Karen Bankston

When Generations Federal Credit Union committed to offering member business loans three years ago, it hired a community banker with extensive knowledge to recruit a team and launch the program.

Over the next year, the $560 million/50,000-member San Antonio credit union (*mygenfcu.org*) hired experienced business loan underwriters and administrators and seasoned commercial lenders who knew the growing market well and brought extensive contacts and "centers of influence" with them. That recruitment strategy "enabled us to get traction fairly quickly," says Chief Risk Officer Ken Raymie, a CUES member.

The credit union launched business lending in the fall of 2015, and its portfolio grew to $75 million in two years, largely in commercial real estate loans, working capital lines of credit, equipment financing and loans through U.S. Small Business Administration programs. Along the way, Raymie's team began to develop action plans "to manage to the cap," a limit on credit unions' member business loan portfolios set by Congress and overseen by the National Credit Union Administration.

"In the coming months, we'll have to start executing on those strategies sooner rather than later. I didn't envision that we'd need to be managing to the cap quite so quickly, but I suppose it's a nice problem to have," he says.

The member business lending cap limits a credit union's business loan holdings to the lesser of 1.75 times its actual net worth or 1.75 times minimum net worth. That standard was revised along with other changes to MBL regulations that took effect in January 2017. The rule changes offer greater flexibility and more autonomy for credit unions, says Joey Duckworth, VP/marketing with Member Business Lending (*mblllc.com*), Draper, Utah.

Still, some thriving commercial loan programs may run up against the cap. Fortunately, those credit unions have several options to maintain compliance—and, in the bargain, continue to grow this vital product line.

Some strategies—like loan participations—are widely used, while others—like an exemption from the cap that can be granted when a CU is designated to serve low-income communities—are less well known, says Larry Middleman, CEO of CU Business Group (*cubg.org*), a credit union service organization based in Portland, Ore. Let's look at some of these methods.

1. Do Loan Participations

Generations FCU's primary strategy for managing to the cap will be to partner with banks and credit unions familiar with the booming South Texas market in buying and selling loan participations—an arrangement that puts parts of the loan on several credit unions' books.

"We're building a circle of friends and partners with a goal of developing familiarity with each other and trust in each other's sound underwriting and structuring of loans so that we're dealing with known entities," Raymie says.

Middleman calls loan participations "the most tried-and-true method of managing the cap."

"You only have to report the amount kept on your books under the cap. If you sell 50 percent of a loan, the amount sold does not count toward the cap," he notes.

This strategy applies to buying portions of commercial loans as well. Because the cap only applies to *member* business loans, portions of non-member business loans purchased from other lenders do not push credit unions closer to the regulatory limits.

2. Keep Growing

The business loan portfolio of $5.1 billion/385,000-member Lake Michigan Credit Union has expanded to $290 million in outstanding loans in the eight years since this product line was introduced, says Jim Maskell, SVP/commercial lending with the Grand Rapids, Mich., credit union (*lmcu.org*).

The business lending cap is a "moving target" for growing credit unions, because the limit rises in step with net worth, Maskell notes. Because Lake Michigan CU has expanded its net worth by $50 million to $60 million over the last few years, "as a rapidly growing credit union, we're nowhere near our cap."

3. Become an SBA Lender

Because the government-guaranteed portions of SBA loans don't count toward the cap, these loans offer another means of navigating the regulation. This form of lending requires additional expertise, but credit unions can sign on with strategic partners that specialize in these programs to package and underwrite loans properly and ensure compliance with requirements to hold the guarantees over the life of the loans.

$830 million/79,000-member Ventura County Credit Union (*vccuonline.net*) specializes in SBA lending, relying on the CUSO Member Business Lending to provide back-office technical expertise and servicing, explains VP/Business and Home Loan Services Ed Sahakian.

One of the most popular SBA loans is the 504 program (*tinyurl.com/smallbiz504*), which offers business property and equipment loans. With a 504 program loan, the borrower puts down 10 percent, the credit union finances 50 percent, and the SBA covers the remaining 40 percent with a guarantee. The 10 percent down payment and favorable rate benefit borrowers, and the SBA-guaranteed portion does not count against the credit union's business lending cap.

Ventura County CU also recently completed a loan deal through the 504 Green program, which helped a local business expand its headquarters and reduce energy costs. Financing through this program is available to businesses

Running Start

Recruiting experienced commercial lenders can give new programs an edge.

Starting a business loan program from scratch can be tough going, from designing new products and processes to positioning the credit union with existing and prospective business members as a can-do lender.

Recruiting experienced commercial lenders who know your market can give this product launch a head start. Seasoned credit administrators and servicers can help design underwriting standards, pricing, terms and loan processes to provide a solid foundation for the new program. And reputable business loan officers bring their knowledge base, contacts and referral sources—and sometimes even a customer base with them.

For example, $5.1 billion/385,000-member Lake Michigan Credit Union (*lmcu.org*) purposefully hired experienced commercial lenders from local and regional banks that didn't require non-compete agreements, which allowed them to bring portfolios of business to their new institution, says Jim Maskell, SVP/commercial lending with the Grand Rapids, Mich., credit union.

Introducing those business owners to Lake Michigan CU has accounted for about half of its loan volume in the eight years since it launched commercial lending; another quarter has come from attorneys and accountants who have worked with those loan officers and are comfortable referring clients to them, Maskell says. The CU's portfolio has grown to $290 million in outstanding business loans, and its commercial lending team now includes seven full-time lenders and a staff of in-house credit analysts and documentation specialists.

$560 million/50,000-member Generations Federal Credit Union (*mygenfcu.org*), San Antonio, Texas, used a similar strategy, recruiting Chief Risk Officer Ken Raymie from the local market three years ago to assemble a business lending team. Raymie's first priority was to hire professionals with experience in credit analysis, underwriting, document preparation, ongoing performance reporting and servicing.

Once the CU had designed its core commercial loan products and put loan processing and portfolio management systems in place, Raymie hired experienced local loan officers to begin bringing in business and deliver on borrowers' expectations for working with a financial institution that understands the complexity of commercial lending.

"San Antonio is essentially a big small town, so lending is really relationship-based. Our lenders were able to hit the ground running and really leverage those centers of influence," he says. "We've also been able to attract new business largely through word of mouth. ... We haven't had to do a whole lot in terms of advertising."

The business lending team at Generations FCU, which has made $75 million in loans over two years, now includes two business development officers, two professionals in credit administration, three in loan administration and Raymie. He worked with the credit union's HR department to map out the needed job descriptions, building on his prior hiring experiences and reviewing job requirements posted by other commercial lenders.

Credit unions looking to recruit business lending professionals will likely face a competitive market where this specialty skill set is at a premium. "We really sell ourselves as high-touch and as knowledgeable as banks, but with more flexibility in loan structuring, pricing and terms," Raymie says. "The message is, 'You don't need to give anything up to move to a credit union.' And I think there's an appeal to the opportunity to have input in building an operation from the ground up."

The consolidation of community banks in recent years may offer credit unions some ready candidates to staff their new business lending programs. But over time, suggests Ed Sahakian, VP/business and home loan services with $830 million/79,000-member Ventura County Credit Union (*vccuonline.net*), Ventura, Calif., there will be "fewer banks that are willing to provide a training ground for their newly recruited bankers, and this is why retention of our best and brightest is so important."

CUs that don't have an experienced business loan executive on staff to take charge of hiring a team may need to work with a recruiting firm to identify and seek out the specialized skills needed to launch this product line, Sahakian says.

At the same time, the focus needs to be on finding business lenders who are comfortable "adapting to the credit union mentality that you are first and foremost serving the needs of your members, not taking care of the shareholders' needs to continuously grow the bottom line," he adds.

To effectively recruit and retain professionals for a new business lending program, credit unions may need to adjust their outlook on compensation. Experienced commercial lenders will likely expect higher salaries and production-based incentives than many financial cooperatives typically pay, Raymie notes.

Hiring top business lending talent "requires a comfort level with incentive compensation at a fairly high level," he adds. "The potential returns make that investment worthwhile. In a specialty field, you need expertise, and oftentimes that expertise comes at a premium."

to finance renovations with projected 10 percent energy savings or generation of 10 percent of their energy needs, Sahakian explains.

As a CUSO that specializes in SBA lending, a major focus for Member Business Lending is educating credit unions about the benefits of these programs, both in terms of protecting their assets and opening up cap restrictions, Duckworth says.

"It would take a lot of loans to hit their cap if they were using these guaranteed loans, but credit unions are hesitant to use them because they're viewed as being very complex, document- and labor-intensive," he notes. "That can be a huge challenge if they don't have commercial lenders on staff with experience in making these loans."

Working with a partner can help credit unions navigate the complexities of SBA lending, including the maintenance of "audit-ready" loan files to ensure loan guarantees are enforceable.

Lake Michigan CU participates in the 504 program and hopes to complete back-office preparations this year to begin making 7A loans, designed for small businesses with insufficient collateral to meet standard underwriting criteria. Like many other credit unions and banks, it works with a business partner, the state Economic Development Foundation, to package 504 loan proposals to meet the SBA's standards.

The credit union is scheduled to complete the acquisition of a community bank, Encore Bank in Naples, Fla., where the CU has a large membership base and several branches. The acquisition would bring personnel experienced in 7A lending on board. "That's a nice complementary benefit to that acquisition for our commercial lending program," Maskell says.

SBA loans aren't the only government programs for small businesses. CU Business Group can take referrals from credit unions for certain types of loans, like apartment buildings or health care facilities, to firms that are lenders for Freddie Mac and U.S. Department of Housing and Urban Development programs designed to spur growth.

"A credit union can refer members to these programs for superior rates and loan structures for someone buying a 30-unit apartment building, for example," Middleman says. "The credit union can still be involved in the transaction and receive a portion of the loan fee for the referral but not record the loan on its books."

"We did a deal recently that generated 25 additional jobs. When we can help businesses grow and create new jobs in the community, that's what commercial lending is all about."
Ed Sahakian

4. Manage the Portfolio by Sector

In addition to cap management, credit unions may need to consider their commercial loan portfolios with an eye toward examiners' potential concerns about concentration risks in certain business sectors, says Alex Cohen, CEO of Liberty SBF (*libertysbf.com*), Philadelphia, a nationwide specialty loan originator, servicer and asset manager in commercial real estate lending.

This is another area where SBA loans offer an effective strategy for portfolio management. "There's a healthy appetite for government-guaranteed properties in the secondary market," Cohen notes.

SBA 504 loans offer borrowers more financing options for commercial real estate acquisition with potentially more favorable rates as longer, fixed-rate loans. The program offers loans for diverse industry and property types, each with its own underwriting standards, from distribution companies buying warehouses to hotels to assisted living facilities and daycare centers. A potential drawback is that these loans may require a larger capital hold for credit unions than other types of financing, which makes selling these assets or originating the loans in the secondary market more common.

Credit unions can provide a valuable service to small business members in making these loans or providing referrals. As part of the SBA loan process, borrowers need to demonstrate that they have not been able to secure credit elsewhere, Cohen notes. "In addition to being approved for the loan, they're able to take advantage of favorable rates and terms subsidized by the SBA. These programs offer ways for small businesses to tap into much-needed financing."

5. Make Small Loans Efficiently

A final way to manage cap requirements is by making small-dollar business loans, as MBL relationships with a total loan value under $50,000 are exempt from cap restrictions.

Many small-business owners are "classic credit union members"—sole proprietors and small operations that need loans of $25,000 to $100,000—Middleman says. Large commercial lenders often consider those loans too small to be profitable, but they're a great size for credit unions, even those under $100 million in assets.

"The key is making these loans efficiently. You can't afford to spend a lot of time on risk analysis for these fairly small-dollar loans," he says. "Getting the right processes and turnaround time in place and making the process easy is necessary for member service and the ability to compete with online lenders."

With fintech competitors entering this arena, small-business owners can apply for and receive loan approval in a day or two and have funds in their accounts by day three, Middleman notes. On the downside, the loan rate might be 12 to 18 percent, plus higher fees and an onerous loan structure, in some cases requiring weekly or even daily payments. Credit unions can compete on loan terms and pricing but still need to improve accessibility and efficiency.

Even larger credit unions with 10-person business lending staffs may not have the right resources to handle small loan requests efficiently, he adds. That's why CU Business Group is rolling out new small-dollar business loan options, with the goal of supporting one- to two-day turnaround time on loan decisions, with documents completed in just a few days.

"Many credit unions would like to be able to offer this service to business members," Middleman says. "Our goal is to do this at a low cost, in the range of a $200 to $300 fee to credit unions for these small loan requests, like a $75,000 truck loan in the business's name."

"Cap management has to go on in the background, because the bottom line for members is, 'Can you give me a loan or not?'"
Larry Middleman

CU Business Group anticipates that this service will apply to secured loans under $100,000 and unsecured loans under $50,000, including business credit cards and lines of credit in the $10,000 to $20,000 range.

Worth the Extra Effort

At its current asset size, Ventura County CU's business lending cap is about $100 million, so its $45 million portfolio is about halfway there. The credit union is already employing key strategies to manage to the cap: selling participations in large loans and making small-dollar and SBA business loans.

"We've got plenty of space in our cap right now, but if we have another year like we did last year, we'll be starting to push up against it soon," Sahakian notes. "We would love to see some regulatory relief that would allow us to continue to make these loans with fewer restrictions.

"We did a deal recently that generated 25 additional jobs," he adds. "When we can help businesses grow and create new jobs in the community, that's what commercial lending is all about."

Member business lending offers advantages that make the added work of managing to the cap worthwhile, including portfolio diversification and being able to position the credit union as a full-service financial institution. Raymie notes that Generations FCU promotes its value proposition as being "easy to do business with."

"That means a lot of different things to different people," he says. "One of the things we would like it to mean is that you can come to Generations and get all your needs met, including business services, instead of having to fracture your relationship across multiple financial institutions."

Credit unions that run up against the cap and have to slow their business lending can undo a lot of hard work in building their reputations as commercial lenders, Middleman cautions.

"If you don't have a lot of capacity and have to be more judicious about which loans you can take on, you're saying no more often," he says. "There are market and perception risks in saying no to established business members. Cap management has to go on in the background, because the bottom line for members is, 'Can you give me a loan or not?'"

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

More on Member Business Lending

Business Lending a Bonus for Both, *cues.org/0118business*

Loan Zone: Relationship Versus Tech Delivery in Small Business Lending, *cues.org/1217loanzone*

Accountability Is Key to Cannabis Lending, *cues.org/0917accountability*

Four Probable Causes of MBL Inefficiency, *cues.org/0817loanzone*

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CUES School of Business Lending™ I: Business Lending Fundamentals, April 30-May 4, Orlando, Fla., *cues.org/sobl*

CUES School of Business Lending™ II: Financial Analysis and Diagnostic Assessment, July 16-20, Seattle, *cues.org/sobl2*,

CUES School of Business Lending™ III: Strategic Business Lending, Sept. 10-14, Denver, *cues.org/sobl3*

CUES Advanced School of Business Lending™: Credit Administration, Aug. 13-17, Denver, *cues.org/advsobl*

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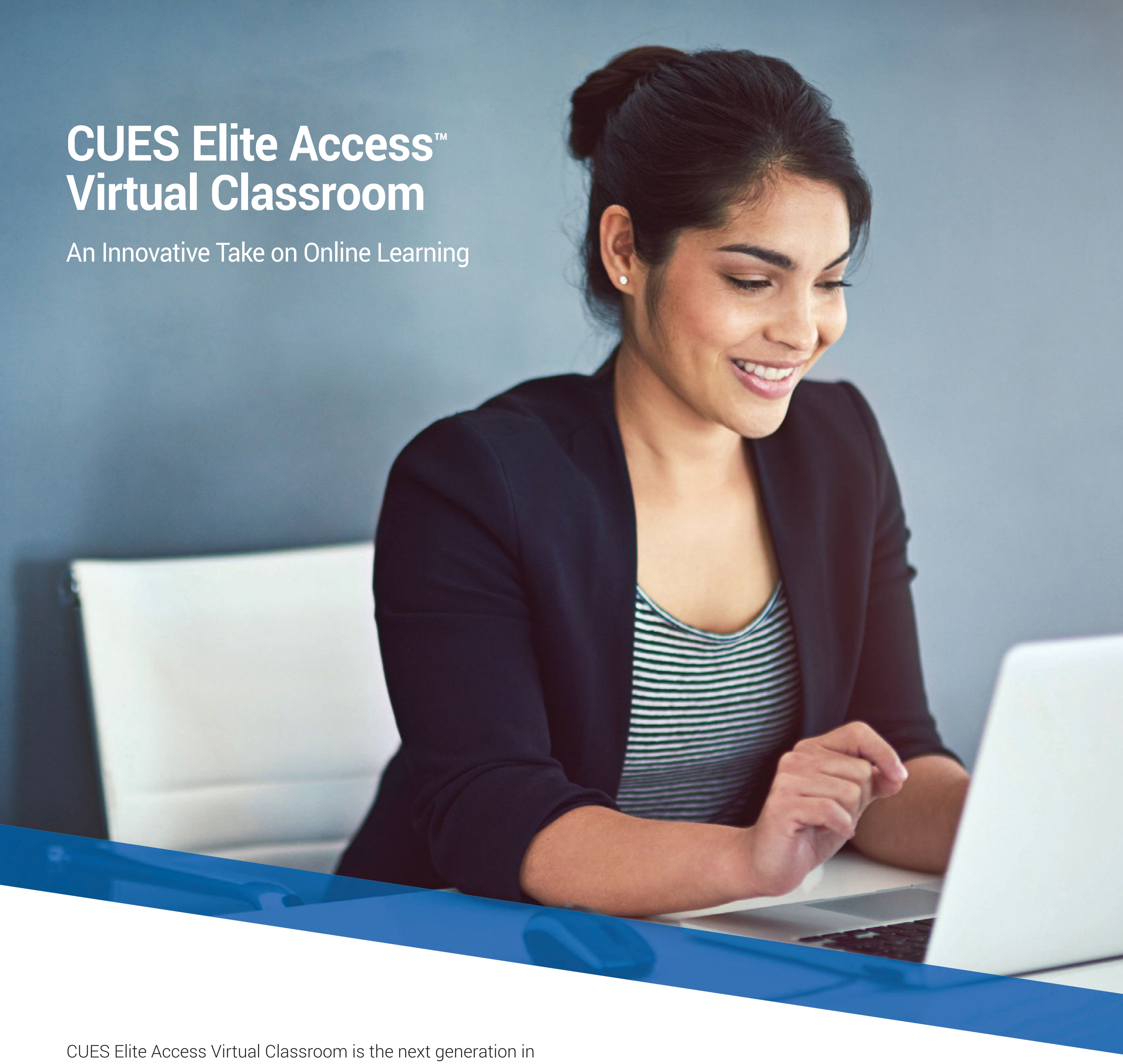

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Retirement Benefits a Versatile Exec Reward

Prospera CU and AFLAC FCU share their experiences with deferred compensation plan selection and implementation.

By Scott Albraccio

Want to get a bunch of credit union executives to laugh? Ask them if they got into the credit union business to get rich.

But even if personal wealth isn't the greatest motivator for CU executives, offering them meaningful rewards—above and beyond their salary—is a worthwhile investment. It helps foster a credit union culture of excellence and leadership continuity.

That's a key reason Prospera Credit Union and AFLAC Federal Credit Union have implemented deferred compensation plans for their top executives. Together, their stories illustrate how non-qualified deferred compensation plans (see sidebar, "Qualified vs. Non-Qualified Compensation Plans") can be tailored to supplement retirement income, retain an executive's services over the long term or both.

Let's break down how non-qualified deferred compensation plans were deployed at each of these CUs.

PROSPERA CREDIT UNION

Schinke Leads Recovery

CUES member Sheila Schinke, CCE, had been with Prospera CU for 20 years when she became CEO of $244 million Prospera CU (*myprospera.com*), Appleton, Wis., in 2009. The Great Recession had hit the CU's operating territory hard, and it was clear the credit union needed some restructuring before it could begin to grow again.

Schinke was a teller for the CU while she was in college and rose through the ranks on the accounting and finance side of the business. The board trusted her to make difficult decisions, and she did.

From the end of 2009 through the second quarter of 2017, Prospera CU's net worth/total assets increased from 7.00 to 8.71, and its total assets increased from $146 million to $244 million. After a minor downsizing, the CU has added at least 10 employees over the last five years and will be adding another four or five in 2018.

While Schinke was leading the CU's turnaround, its board of directors was considering various deferred compensation plans that would add strong incentives for her to stay for the long term.

Board Sifts Options and Data

Prospera CU VP/Operations Julie Van Vonderen became the liaison between the board and several preferred providers of non-qualified deferred compensation plans.

Each of the many possible non-qualified deferred compensation plan configurations needed to be explained, often multiple times over the three years this was studied, as board members turned over and regulations changed.

The volunteer board members at this credit union with roots in industrial SEGs came from a variety of backgrounds. Many had never encountered supplemental executive benefits of any type, much less complex non-qualified products.

"Our board was concerned that we were offering Sheila a fair plan that wasn't exorbitant compared with plans for CEOs of other credit unions of our size in our market," Van Vonderen says. She credits CUESolutions provider CUNA Mutual Group (*cunamutual.com*), Madison, Wis., with providing all the relevant data and details the credit union needed to make good decisions about the various deferred compensation plan options.

The Retirement Income Gap

Over three years, Prospera CU's board met with CUNA Mutual Group several times, while working out details with Van Vonderen and Schinke.

The company conducted a thorough analysis of Schinke's financial situation and retirement goals. The analysis showed that Schinke's projected retirement income was seriously affected by Prospera CU's recent transition from offering a defined benefit pension plan to a 401(k) plan.

Qualified vs. Non-Qualified Compensation Plans

The term "non-qualified" relates to the Internal Revenue Service qualifications for tax deferral. These deferral rules are extensive, but here's a high-level comparison from the 2017 CUES ebook, *Non-Qualified Executive Benefits: A Guide for Credit Union Leadership* (*cues.org/cmg*):

- **Qualified plans** refer to retirement benefit programs in which all employees may elect to participate, including the CEO and other highly compensated employees; 401(k) programs are a common example. These plans have tax-deferred status and are governed by the IRS and the Employee Retirement Income Security Act of 1974, which detail contribution limits, benefit availability and nondiscrimination requirements.
- **Non-qualified plans** are created for the CEO and, in a growing number of credit unions, other executives. Non-qualified plans encompass both retirement programs and other compensation arrangements designed to be paid out during executives' tenure with the credit union.

The defined benefit pension plan alone could replace about 50 percent of Schinke's working income. But even if she contributed the maximum percentage to the 401(k) that regulations allow, the analysis projected a significant gap between her final salary and her retirement income from the 401(k) and Social Security.

That's a common outlook for highly paid employees in credit unions, which can't offer stock options and other perks that for-profit, public corporations can offer to help make up the difference.

To help close some of the retirement income gap for Schinke, the Prospera CU board worked with CUNA Mutual Group to create a split-dollar life insurance arrangement. This type of agreement is built around a life insurance policy for which the benefits—the cash value and the death payout—are shared, or "split," by the employer and the employee. Schinke and the board agreed on a "collateral assignment" split-dollar plan (also called a "loan regime" plan).

At a basic level, here's how this type of plan works: The credit union loans the executive the amount required to pay a life insurance policy's premiums. In return, the executive assigns a portion of the policy's death benefit to the credit union to repay the loan. Any additional death benefit can be assigned by the executive to other beneficiaries, such as a spouse or other family member.

The policies are structured with the goal of generating cash value the executive can use to supplement retirement income.

An advantage of such a plan is that the cash value on the life insurance can grow tax-free. In addition, the death benefit payout is tax-free to the credit union and to the executive's beneficiaries. Also, distributions from cash values are generally received tax-free—so this is an attractive complement to qualified retirement plans.

Incremental 457(f) Plan Payouts Provide Long-Term Incentives

Schinke was only in her early 40s when the credit union's board began the process of setting up deferred compensation for her. The board recognized that the far-off retirement benefit—calculated to occur in 2030—might not be enough incentive to retain a successful young executive in today's highly competitive market.

With Van Vonderen coordinating exchanges of information between CUNA Mutual Group, Schinke and the board, all parties agreed to set up three lump-sum payments that Schinke would receive in five-year increments if she remained with Prospera CU.

The credit union's board chose a 457(f) plan as the vehicle for the lump-sum payments. A 457(f) plan is an non-qualified deferred compensation plan available to governmental and tax-exempt employers, including federal and state CUs. Unlike a 401(k) plan, the CU owns it, not the employee, and there are no contribution limits.

A 457(f) can be funded by a variety of financial instruments, and the Prospera CU board chose corporate-owned life insurance.

Corporated-owned life insurance is different than the split-dollar life insurance used for Schinke's supplemental retirement plan. The corporate-owned life insurance policies funding the 457(f) are owned by the credit union, not by the executive. Their purpose is to generate the cash value needed to meet the obligation to the employee.

Schinke's deferred compensation plan was finalized in 2014.

"It was a relief," she says. "It felt good to finally put it behind us, and to know that the board had the faith and trust in me to offer the plan. And it takes some stress out of thinking about retirement."

AFLAC FEDERAL CREDIT UNION

AFLAC Board Rewards McLeod

$192 million AFLAC FCU, Columbus, Ga., is an industry outlier these days. The CU's board chose not to expand into a community field of membership, deliberately remaining a single-sponsor CU offering only savings and share draft accounts and consumer loans. And yet, during Roy McLeod's 30 years as CEO—with a full-time staff of only eight employees—AFLAC FCU's assets have grown almost tenfold.

In 2012, the AFLAC FCU board began to field proposals from NQDC plan providers.

A CUES member, McLeod says his board wanted him to be able to replace about 80 percent of his final salary in case he wanted to retire at age 65, which was less than five years away at the time.

Transparent Reporting for Examiners

CUNA Mutual Group gathered information from McLeod and the AFLAC FCU board, and presented several potential solutions. The board's investment committee screened the options and made recommendations to the full board.

McLeod says that he recused himself from his regular seat on the investment committee during deliberations and votes regarding the deferred compensation plans. He notes that the board is loaded with CPAs and finance expertise from AFLAC Inc. and its affiliates, so they had a solid grasp of the available options.

"We carefully documented every step of the decision-making process in the board minutes so everything was transparent and clearly presented for any examinations or audits," McLeod says. "We actually called the NCUA and our accounting firm, to make sure we had the right accounting."

The board eventually chose a 457(f) plan for McLeod, funded by a managed investment portfolio.

An outside attorney was hired to draft the 457(f) agreement (get more on this at *cues.org/121117skybox*), and the credit union's regular legal counsel reviewed and approved it. Once the plan was put in place, the board managed its progress with monthly reports from the portfolio manager and frequent check-ins from CUNA Mutual Group.

> "I was part of this [success], but the board, our employees and I did this as a team. And when they come to you and express their genuine gratitude, it's an extremely rewarding time in your life."
>
> Roy McLeod

McLeod says the board's transparency and oversight turned out to be critical when examiners had extensive questions about AFLAC FCU's accounting for the 457(f).

It's not unusual for examiners and auditors to have questions about NQDC plans. Although about 36 percent of CU CEOs have 457(f) plans, according to the 2016 and 2017 installments of the *CUES Executive Compensation Survey* (*cues.org/ecs*), not all examiners have experience with the plans and their opinions about accounting methods for the plans sometimes differ.

McLeod points out that this type of deferred compensation plan uses investments the National Credit Union Administration allows only in limited circumstances, which was another reason that due diligence up front and careful documentation was important.

Plans for Next Generation of Leaders

Prospera CU's Schinke and AFLAC FCU's McLeod both say non-qualified plans can motivate not only current CEOs but future leaders.

At Prospera CU, where Schinke potentially has at least another dozen years ahead of her as CEO, the board has moved to keep three of its other top executives in place by setting up 457(f) plans for them.

McLeod says the NQDC plan set up for him will show his chosen successor, currently in her mid-30s, that the board is serious about retaining high-performing leaders. "You've got to be competitive in compensating people and making sure that benefit programs are up to market standards," he says.

McLeod echoes Schinke's comments about being relieved when the process of setting up his non-qualified deferred compensation plan was over—and about being very grateful for the CU's support.

"It's one of the most humbling things that has ever happened to me," McLeod says. "I was part of this [success], but the board, our employees and I did this as a team. And when they come to you and express their genuine gratitude, it's an extremely rewarding time in your life. Honestly, the payment could have been 50 cents—their recognition and sincere comments...priceless."

Scott Albraccio *manages the executive benefits specialists for CUESolutions Platinum provider CUNA Mutual Group (*cunamutual.com*), Madison, Wis. For more information about becoming a CUESolutions provider, email* kari@cues.org

More on Executive Benefits

CUES Podcast Episode 46: New Tax Reform and the Impact on Executive Benefits Expenses, an Interview with John Pesh (*cues.org/podcast*)

Non-Qualified Executive Benefits: A Guide for Credit Union Leadership (*cues.org/cmg*)

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

Close the Gender Retirement Gap (*cues.org/1017close*)

A 7-Point SERP Checklist (*cues.org/0917seven*)

Split-Dollar Plans: Tools for Retention (*cues.org/0717splitdollar*)

Keep Turning the Hourglass (*cues.org/0617keep*)

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Serving Country and Credit Union

2017 CUES Distinguished Director Marvin Hawk lives out 'people helping people.'

By Diane Franklin

J. Marvin Hawk, CCD, reached the pinnacle of civil service before retiring from his position as director of resource management for Fort Knox, Ky. As a long-time board member for the CU that bears the Fort Knox name, he likewise has reached the pinnacle in terms of his service to the CU movement.

Hawk, chair for $1.4 billion Fort Knox Federal Credit Union (*fortknoxfcu.org*) in Radcliff, Ky., was named the 2017 CUES Distinguished Director based on the stellar work he has done on behalf of the CU over the past four decades. He received the honor at CUES' Directors Conference (*cues.org/dc*), which took place in December at the JW Marriott Marco Island Beach Resort in Marco Island, Fla.

Hawk's board involvement includes three terms as board chair (including his current term) plus multiple terms in the other officer roles. "I have served on the executive committee for 28 of my almost 37 total years of service on the credit union board," Hawk says. "I have also served on and chaired most of the committees the credit union has had over the years."

A Financial Career Path

A Kentucky native, Hawk has never strayed far from his roots. He grew up in Bonnieville, a small town about 70 miles south of Louisville. When it came time for college, he chose the University of Kentucky where he obtained a bachelor's degree in commerce with a major in accounting. More than 50 years since his graduation, he remains a devoted fan of the Kentucky Wildcats, with his favorite sport being basketball.

Degree in hand, Hawk sought a job in the financial sector. "I've always been good with numbers and finances," he reports. "That is what led me to my career path."

Hawk started his professional career as an auditor with a regional firm in Cincinnati, just a few miles north of the Kentucky border. In December 1962, he moved back to Kentucky and accepted an audit position in civil service in the comptroller's office at Fort Knox, a major Army installation that encompasses nearly 110,000 acres and employs several thousand civilians and members of the armed forces.

"I served in a variety of auditing and accounting positions and retired in September 1995 as the director of resource management, the highest civilian rank position at Fort Knox," after three years in the role, says Hawk. Before that he served as the deputy director of resource management for 11 years.

During his time in the comptroller's office, Hawk worked with many people who were members of Fort Knox FCU. He liked what he heard about the CU, so in 1974, he decided to become a member as well. Just four years later, he took on his first volunteer role with the CU.

Several members of Hawk's board and his CEO, Ray Springsteen, were on hand to congratulate him on the award, including (from left), Jo Exler; Henry Wheatley, CCD (2004 CUES Distinguished Director honoree); Hawk; Springsteen; and George Pennington.

"I served on the supervisory committee from 1978 to 1981," Hawk reports. "In 1981, I was appointed to fill the vacancy of a board member who retired, and I have been on the board continuously ever since."

During Hawk's 37 years of board involvement, Fort Knox FCU has grown dramatically and taken many great strides to serve its members.

"The credit union's major accomplishments during my tenure on the board are the safety and soundness of the credit union," Hawk says. "Since I started on the board in 1981, Fort Knox Federal has grown from three branches and $52 million in assets to more than $1.4 billion today with 17 branches and almost 100,000 members. We are now the largest credit union in the state of Kentucky."

Fort Knox FCU also excels in measurements compared to peer groups.

"The credit union has a net worth of almost 16 percent and consistently has a return on assets significantly above our peer group," Hawk reports, adding that the CU's operating expense ratio also is one of the lowest in its peer group. "I believe a major factor in the steady growth of our credit union over the years has been the visionary leadership of the board and the president/CEO. Additionally, we have been blessed with an outstanding staff."

Another way that Fort Knox FCU has ensured growth is by staying on the leading edge of technology. "Automation has been a key factor that has allowed us to provide the services that members needed and wanted," Hawk says.

At the same time, the CU has grown its membership through geographic expansion and by reaching out to an ever-increasing number of area employers. "Over the years, Fort Knox Federal has added hundreds of select employee groups that have greatly contributed to our consistent growth and soundness," Hawk explains.

Strong Support for CUs

One of the prime motivators for Hawk's long-time service to the CU is the "people helping people" philosophy. Hawk observes that CUs are making a positive difference in the financial lives of their members. "That's one of the reasons that I decided to get involved with the board," he says.

Hawk sees CUs as being in a much better position than banks to improve people's lives and their communities.

"Credit unions are not–for-profit organizations, and because of this, they can generally offer higher rates on savings, lower rates on loans, and low or no fees on services," Hawk observes. "Credit unions also are more proactively involved in their communities and in providing support to community organizations. We are very visible in the community, which helps to get the word out about our credit union."

Since Fort Knox FCU has branches in many different communities, the impact that the CU has is quite extensive. "The directors and the staff are involved in many different organizations throughout the communities served by our 17 branches," Hawk reports.

Another advantage that CUs have is their collaborative nature and ability to work together to further common goals. "Credit unions are willing to share success with other credit unions, which is not the case with banks," Hawk says. As an example, he cites the positive experience of attending CUES' recent Directors Conference. Another great opportunity for colleague interaction is the annual CUES Symposium: A CEO/Chairman Exchange (*cues.org/symposium*), he says.

"At these conferences, you have the opportunity to work with your peer groups and find out what they're doing that's been successful and also what's not been successful," Hawk says. "It's beneficial to have the opportunity to network with other directors."

To ensure that he is an effective board member, Hawk has completed several professional development training courses and has encouraged others to do the same. Under his board leadership, directors at

"Marvin takes a very proactive approach to serving the community. ... He's very passionate about wanting to see the credit union succeed and to help us continue to make an impact by improving members' lives."
Ray Springsteen

CUES' President/CEO John Pembroke (left) presents Hawk with the award.

Fort Knox FCU have completed more than 650 educational training sessions.

The CUES Distinguished Director award is one of several honors that Hawk has received in recognition of his tireless work for credit unions. "Because of my leadership positions in the credit union movement, I was selected in 2011 to receive the Steve Brody Award as the Outstanding Credit Union Director in the State of Kentucky" by the state league, he reports. "In 2016, I was selected to be inducted into the Defense Credit Union Council Hall of Honor."

A Service-Oriented Spirit

Hawk's service-oriented spirit permeates every part of his life. He served more than 14 years as treasurer of his Baptist church in Elizabethtown, Ky., where he lives. "The church has a membership of more than 4,000 and an annual budget of more than $3.7 million," he says. "I have been an active member of this church since 1976, and have and still serve on a number of committees."

During his career at the Fort Knox military installation, Hawk served as the charter president of the Fort Knox Leadership Association, a group of about 125 senior civilian members who advised the Fort Knox Command Group on matters pertaining to civilians at Fort Knox. He also served for many years as the vice president of the American Society of Military Comptrollers, Fort Knox Chapter, and also served terms as the chapter president.

In addition, Hawk was selected as the first civilian representative for a program called Leadership Elizabethtown, a year-long leadership program sponsored by the City of Elizabethtown.

Throughout his life, Hawk also has been a devoted family man. In 1961, he married his high school sweetheart, Jennie Lou Wells. Together, they had two daughters. "We were married 53 and a half years before her passing in 2015 after a long illness of almost six years," Hawk says. "I was her primary caregiver during that period."

Hawk's daughters are both married, and he has two granddaughters, one of whom recently married a Marine stationed in Camp Pendleton near San Diego.

A Tradition of Dedication

Dedicated board service is not unusual among the directors who serve Fort Knox FCU. In fact, Hawk is not the first board member from the CU to receive the Distinguished Director recognition in the 31-year history of the award.

"Fort Knox Federal has been very fortunate over the years to receive this honor," Hawk says, citing several reasons that several directors from the CU have achieved this feat, including Howard Williams, CCD, in 2014, Henry Wheatley in 2004, and Leo C. Pike Jr. in 1994.

"We have an outstanding board, and many of us have been on the board together for several years. And we work well with the CEO and the staff."

CUES member Ray Springsteen, president/CEO of Fort Knox FCU, appreciates all that Hawk has done for the organization.

"A couple things stand out about Marvin," Springsteen says. "He has not only served the credit union for nearly 40 years, but he also serves the community." That includes the tremendous work he has done on behalf of his church and the military.

"Marvin takes a very proactive approach to serving the community," Springsteen adds. "He is making a difference in the credit union and in the lives of people in the community overall. He's very passionate about wanting to see the credit union succeed and to help us continue to make an impact by improving members' lives."

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

More on Director Leadership

CUES awards programs (*cues.org/recognition)*

CUES Governance Leadership Institute in Miami and Toronto (*cues.org/institutes*)

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Center for Credit Union Board Excellence 30-day free trial, *cues@cues*.org.

Winning Goals

Annette Zimmerman's focus shifted from teller to CEO. She thinks today's mentoring culture supports women having loftier career visions from the get-go.

By Richard H. Gamble

When she graduated from high school in Kearns, Utah, 17-year-old Annette Zimmerman knew exactly what her career should look like. She wanted to be a bank teller. As a part-time waitress in restaurants, she occasionally made bank deposits. She loved the classy décor, the odorless quiet, the people who wore nice clothes and counted money. If she could just get on as a teller, she'd be set for life in her dream job, recalls the CUES member, now CEO of $470 million PrimeWay Federal Credit Union (*primewayfcu.com*) in Houston, Texas. "I hoped to retire as a teller."

What happened? Talent was recognized and nurtured. She was mentored. "Mentoring brought me to where I am today," she notes. "I started out completely untrained and unpolished."

But, through an employment agency, she did get hired as a teller by Utah State Credit Union in Salt Lake City, which later became part of Mountain America Federal Credit Union (*macu.com*), now $3.6 billion, W. Jordan. She quickly mastered the basic tasks, and Doug Cline, then executive vice president, noticed.

"He was my first mentor," Zimmerman says. "He saw something in me and taught me a lot. He took me off the teller line when it wasn't busy and gave me back-office responsibilities sorting mail, processing wires and ACH. Then when the check processing supervisor retired, he asked me if I wanted a shot at that job. I was naturally competitive and gaining confidence, so I took it. I didn't know what a MICR line was, but I learned.

"After Cline left, the new CEO, Gordon Dames, gave me responsibility over IT at a time when we were preparing to bring it in-house after years of outsourcing. We did a core conversion. Then technology started to take off, home banking caught on, and it was a busy but exciting time for me. It was a win-win situation because the credit union paid me less than a fully qualified IT manager would make and gradually brought me up to scale as I proved myself."

She settled into a comfortable role as SVP/chief information officer of Mountain America FCU, then a $2 billion operation. It was a pretty heady perch for someone who aspired to retire as a teller.

Elevating the Goal

Her goal changed again when Dames announced his retirement and named her as one of five internal candidates to be his replacement.

"I was shocked," she says. "I never thought I could be a CEO with my limited experience, but now I wanted to be a CEO and determined to prepare for it. I asked the credit union for another session of executive coaching. I knew I still had things to work on." She didn't get that job, but she was on her way.

She left the CIO post to become SVP/business services and women's financial services for Mountain America FCU for two years. "Most people saw it as a sideways move, but it was the most rewarding period in my career because it gave me member-facing experience and introduced me to a lot of professional women," she reports. "It was a growth experience and prepared me to be a CEO when the call came in 2010 from PrimeWay."

Along the way, Zimmerman had a host of mentors, including executive coaches. Hers were all male, all paid, none of them grounded in credit union experience. It taught her that being an effective executive takes more than hands-on experience with a lot of credit union operational activities. It was an executive coach who helped her overcome a fear of public speaking, she recalls.

"They're pros," she notes. "They'll tell you straight up what your faults are. One of my biggest takeaways from the executive coaches was that you didn't have to know how to do the jobs of the people you were supervising. You just had to understand the big picture and be able to motivate and lead them."

If You Like This Article …

This is an excerpt from *CU Management*'s new digital-only quarterly publication, *Advancing Women*, which will provide information and inspiration for current and aspiring female credit union executives and the men who support them. Find it at *cumanagement.org* later this month!

On Mentoring

One of her executive coaches asked her to mentor MBA students in a program he was organizing at a Salt Lake City college. By this time, she had picked up a B.S. in business information systems from the University of Phoenix, but didn't see how that qualified her to mentor MBA students. Still, she did it for four years, mentoring three men and one woman.

A lot of Zimmerman's mentors were not paid coaches and not CU operations veterans but friends whom she turned to for support and insight into activities like organizing, motivating and thinking ahead. When she left Salt Lake City for Houston, she had a dinner to thank 18 mentors, all women, although she acknowledges many male mentors along the way.

Now she's doing the mentoring. The key to success, she says, is a student who wants to learn and knows what he or she wants to learn. She has the food, but they have to bring the appetite. And it makes no difference whether she's mentoring a male or female. "You mentor them exactly the same," she says. "I mentor people based on their goals."

She does think that women of ability need a little more encouragement and support, although that is changing.

"Women tend to grow up with less confidence," she explains. "We worry more about what we don't know. Men can fake it until they make it better."

But that culture is fading, she adds. "It shows in how we raise our daughters. I give my daughter different messages than my mother gave me. The confidence gap is closing."

Richard H. Gamble *is a freelance writer based in Colorado.*

More on Women in Leadership

Connected and Collaborative (*cues.org/0118sponem*)

Destination CEO (*cues.org/0417destinationCEO*)

By the Numbers: Women as CU CEOs (*cues.org/0317bythenumbers*)

Women at Work, Find Your Voice (*cues.org/0117women*)

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Making Members Stick

Three credit unions share how they earned high Net Promoter Scores and how they use that feedback to improve experience and strengthen relationships.

By Pamela Mills-Senn

Measuring member satisfaction has certain limitations. For one thing, high satisfaction doesn't necessarily translate to loyalty. For another, there isn't always a strong correlation between satisfaction and other business results measures, says CUES member Michelle Bloedorn, CCE, CEO, Member Loyalty Group (*memberloyaltygroup.com*), Chicago.

The solution? The Net Promoter Score, or NPS. A service measurement developed by Fred Reichheld, Bain & Company (*netpromotersystem.com*), Boston, and Satmetrix (*satmetrix.com*), San Mateo, Calif., NPS ties business growth and financial results, says Bloedorn. Included in Member Loyalty Group's arsenal of tools, NPS poses the question, "How likely is it you would recommend us to a friend?" and provides a scale from 10 (very likely) to 0 (not at all likely) for people to indicate their likelihood to refer. Responses fall into the following three groups:

- **Promoters (9s or 10s):** These respondents are considered loyal and enthusiastic fans. They're more apt to remain customers and increase their purchases/transactions over time. They account for more than 80 percent of referrals in most businesses.
- **Passives (7s or 8s):** Satisfied, but just for now. Their repurchase and referral rates are significantly lower, by as much as 50 percent, than those of promoters. Additionally, their recommendations are less enthusiastic. They're susceptible to competitors.
- **Detractors (0s to 6s):** These unhappy campers account for over 80 percent of negative word-of-mouth. They're characterized by high rates of churn, have bad attitudes, discourage new customers and demotivate employees, all of which can tarnish your reputation.

NPS is calculated by subtracting the percentage of promoters from the percentage of detractors, says Bloedorn, explaining this gives credit unions a number they can track regularly. Scores vary quite a bit by industry, she says, adding, "In our industry, the banking average is about 35, and the credit union average is about 62."

"And not just for the whole organization but also for each product, branch or member-service team," she adds. "You can also track it for member segments, geographic units or functional groups."

Taking the Pulse

But the score is just part of the reveal; credit unions can ask members the reasons for their ratings via an open-ended question, providing the opportunity to hear from customers daily and in their own words, says Bloedorn.

"Leaders build that feedback into their operating systems, using it to address member concerns and to fuel the innovations that generate more promoters," she explains. "They use this closed loop to learn more about how they can improve their processes, people, products and pricing for the long term."

One of the reasons $1.75 billion Educators Credit Union (*ecu.com*), Racine, Wis., began

using NPS in 2008, was to take the pulse of their membership, says Chuck Duford, NPS program manager for the CU.

"The concept of NPS is to measure loyalty, not satisfaction," says Duford. "It allows you to really judge if your members are loyal and if the credit union is meeting their needs. We were interested in getting deeper information on loyalty because the organization was growing and the concern became staying connected to members despite this growth."

To use the NPS software tools offered by Satmetrix, which at that time generally worked only with large corporations, Educators CU partnered with five other credit unions to form Member Loyalty Group, becoming sizeable enough to gain access to the NPS relationship survey tool. Now, Member Loyalty Group works with 115 CUs and CUSOs.

Educators CU sends out the NPS relationship survey randomly each quarter to about a third or a quarter of members, with each receiving it at least once annually.

"The loyalty piece, which focuses on the relationship with members, has improved from when we first utilized this tool," says Duford. "At initial implementation, it was 65 percent," says Duford. "Currently it's at 73 percent. Of the three—relationship, branch, new-member—the relationship score is the most difficult to change," as it measures loyalty to the entire organization.

$5 billion Pennsylvania State Employees Credit Union (*psecu.com*) had been using the NPS metric, running it in house, says CUES member Greg Smith, president/CEO. However, to provide a baseline and a reference point for the organization's NPS ratings, it started working with Member Loyalty Group in the fourth quarter of 2014.

"During our first quarter with Member Loyalty Group we earned the top ranking of all the credit unions using MLG," says Smith. "We've earned best-in-class for quite a few of the quarters, although sometimes we fall into second place." The CU's first rating was 82.07; it ended the second quarter 2017 at 83.55. As of early January, the CU had an 83.93 score.

$1.2 billion Firefighters First Credit Union (*firefightersfirstcu.org*), Los Angeles, has been using NPS since 2014, says CUES member Kelly Ramsay, SVP/marketing. Before NPS, Firefighters First CU used a manual process for calculating satisfaction, says Ramsay.

"But the board decided to move to NPS to ensure consistency on the questions asked, ensuring valid data and trusting the data and responses," she explains. "We want to track ease-of-use and likelihood-to-recommend to ensure we're focused on meeting and exceeding member expectations."

The CU's first NPS—done shortly after the credit union underwent a name change from Los Angeles Fireman's Credit Union to its current moniker—was 70.39 percent (Ramsay says changes often cause an initial but usually temporary drop in the NPS score). The CU's target for 2017 was to achieve an NPS of 81 percent; a goal the CU exceeded with a final of 83.11 for the year.

"Our members are extremely important to us, and delivering a positive experience is something we all focus on," says Ramsay. "Any change or conversion can impact your score, so you have to ensure a solid testing and launch in order to minimize the impact."

NPS Best Practices

$3.5 billion Redwood Credit Union's (*redwoodcu.org*) first NPS score in 2010 was 67.33, says Andy Ramos, SVP/member experience. By the first quarter of 2017 this had risen to 81.42—an accomplishment Ramos is particularly proud of given Redwood CU's "significant" growth.

How did Redwood CU make such strides? Ramos attributes the strong performance to "the adoption, engagement and unwavering support" of NPS on the part of Redwood CU's CEO and the senior leadership team, who introduced the metric to the CU.

"Those key elements, along with an effective organizational structure that supports Net Promoter—our member

Scoring Member Effort

Credit unions participating in Member Loyalty Group typically rely on a combination of the Net Promoter Score and other measures to gain insights that help them innovate, determine what products and services to offer, and make decisions around other issues involving their members, says CUES member Michelle Bloedorn, CCE, CEO of Member Loyalty Group (*memberloyaltygroup.com*), Chicago.

"The essential idea behind the member effort score is that reducing the effort required for your members to do business with you will result in fewer detractors and a better member experience, thus improving loyalty," Bloedorn explains.

Basically, the survey queries those who have recently interacted with a credit union to indicate how easy it was for them to complete their task or handle their issue. The scores can be segmented by types of interaction, for example if the member had a question, problem or needed technical support and so on, or by channel/specific touchpoint (phone, web, mobile). Scores indicating where "high effort" was required to resolve an issue—such as having to make multiple phone calls to correct a problem—can help identify areas of the organization that need looking into, says Bloedorn.

She's often asked if the MES is a better measurement of satisfaction and loyalty than NPS or other tools, but Bloedorn says a combination of measures brings the most revealing results.

"Consider this, a member may have had many great experiences with the CU and be highly likely to recommend (as indicated on the NPS)," she says. "However, their recent experience with your online banking was very difficult, taking way longer than anticipated. Imagine if this member had continuous issues with the online banking channel. One would guess this would impact their overall loyalty at some point."

Used over time, the MES can serve as an early warning system, flagging the current high-effort experiences, signaling potential threats to member loyalty.

"One metric alone cannot provide leaders with all the information necessary to improve the organization," Bloedorn concludes. "[But remember], it's how you use the feedback and take action that creates the results that NPS, MES or any other metric promises."

experience team and our Net Promoter program manager—allow us to focus on what members are telling us and take action," says Ramos.

Also juicing their scores is that members know Redwood CU listens to them, says Ramos, adding that those asked to participate in the Net Promoter survey get a personalized email invitation from him explaining its importance and how member feedback is used.

Letting members know their feedback isn't going to waste is essential for encouraging a good survey response rate, for keeping members engaged in an organization and for sparking innovation.

For example, Educators CU has implemented several new programs based on member feedback, says Duford. One was the "Change Up" savings account. Tied with member debit cards, the purchases of participating members are rounded up to the nearest dollar with the difference deposited into that account, which has a higher interest rate than the standard savings account. The CU also implemented changes to the its online and mobile banking products based on member suggestions with good success. Once a year in the monthly newsletter Educators CU sends to members, proposed changes and suggestions received are discussed along with how the CU responded.

Ramsay says they flag all "passive" and "detractor" responses for immediate follow-up. "Sometimes it's as simple as thanking them for their feedback or providing additional education on a product or service," she says. "Other times it's researching what occurred to identify opportunities to improve the member experience."

Firefighters First CU has a dedicated member experience specialist who works with members on issues and is also involved in processes and product development to keep the member experience front-of-mind. Ramsay says the CU has become more focused on testing new products, services and changes they're considering, working to ensure in advance that the member experience is protected. Redwood CU takes a similar approach with its "TME" or Total Member Experience strategy.

"We use the feedback provided through NPS, along with suggestions from staff based on what they're hearing and seeing from members, to develop processes and services improvements that will have a positive [impact] on making the member experience easier, faster and more convenient," Ramos says.

Making the member experience effortless, providing top-notch service and acting in members' best interests are the hallmarks of CUs with high NPS scores, says Bloedorn.

"Best-in-class teams also use the feedback to identify staff that needs coaching or training," she adds. "Good programs provide very specific feedback. For example, our CUs will look at member feedback by branch location or time of day the transaction took place to identify problem locations or staffing issues."

Duford says NPS has enabled the CU to take a targeted approach to coaching, improving the process. NPS comprises 40 percent of the twice-yearly performance evaluations for all staff (even he is evaluated by employees via an internal NPS tool) and is incorporated into Educator CU's new-employee orientations. It has also allowed giving shoutouts and recognizing employees receiving positive feedback, becoming a morale and team-builder.

"Employees were initially skeptical of NPS, but now they're looking at it more positively," Duford says. "Their mindset has changed to 'this is something we can use to give members a wow experience.' But what has also helped is focusing on the positives of the feedback and using NPS as a tool for improvement."

Pamela Mills-Senn *is a freelance writer based in Long Beach, Calif.*

Member Survey Resources

The Right Questions
(*cues.org/0316right*)

Credit Union Surveys
(*cues.org/0216surveys*)

Measure Action Over Intention
(*cues.org/1015measure*)

Assess With NPS
(*cues.org/0514nps*)

Young People Use Email!

Survey of 15- to 25-year-olds shows that 70 percent check their inboxes at least hourly.

By Tim McAlpine

With all of the hype and attention given to social media, it may be surprising to learn that good old-fashioned email is still alive and well and is an effective way to communicate with young credit union members and potential members.

At Currency Marketing (*currencymarketing.ca*), we surveyed more than 350 young adult consumers, aged 15 to 25, from across the United States and Canada. At the beginning of the survey, we asked numerous questions about online service usage. Here are the questions and answers from the survey:

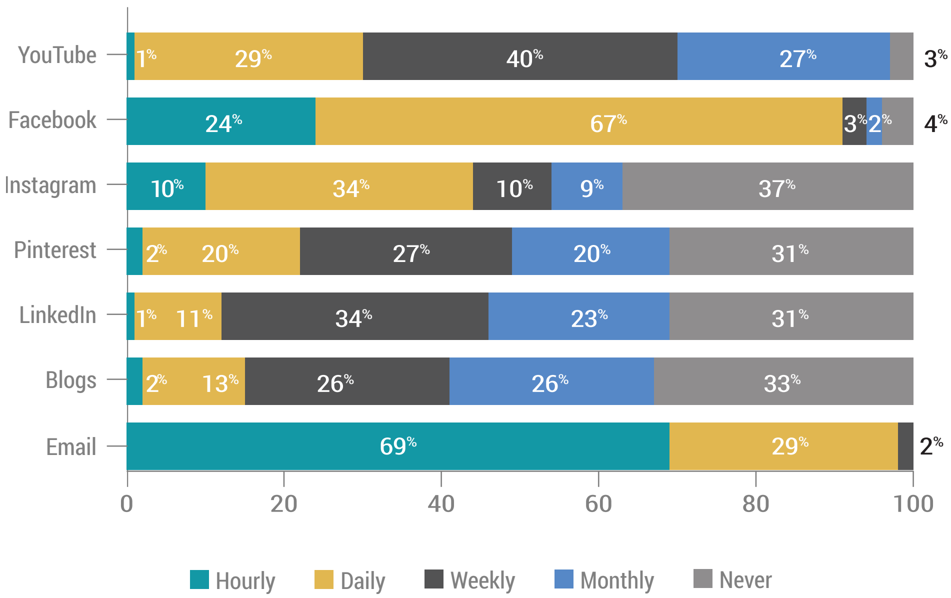
As you can see, young adults are spending a lot of time online!

While we fully expected to see heavy usage of Facebook, YouTube and other social media, we were pleasantly surprised to see how much attention young people are giving to their email.

All of the respondents indicated that they use it, with 29 percent saying they do so daily and almost 70 percent reporting hourly usage! The second-highest platform in the hourly category was Facebook at 24 percent. That's a whole lot of email usage.

To clarify, we did not differentiate between personal and work usage of any of these services, nor did we ask if these services were being accessed on mobile devices or computers. However, more and more, the lines between personal and work are blurring, when employees check work email at home on a mobile device or make a quick Facebook update at work.

How often do you access online services?



It Takes a Layered Approach

At Currency, we have long advocated for credit unions to take a layered approach to marketing by integrating all marketing channels available, including traditional media, digital marketing, events, public relations, social media and more.

We think email marketing and communications should be part of this mix, and these survey results validate this approach. When a shiny new platform (like Instagram or Snapchat) or technique (like content marketing or marketing automation) comes along, take it in stride, experiment with it and add it to your credit union's young adult marketing mix if it makes sense for your situation.

Email Is the Ultimate Form of Permission Marketing

Seth Godin wrote *Permission Marketing* nearly 20 years ago and outlined how products and services would be sold in the future. Godin explains the concept like this, "Permission marketing is the privilege (not the right) of delivering anticipated, personal and relevant messages to people who actually want to get them. It recognizes the new power of the best consumers to ignore marketing. It realizes that treating people with respect is the best way to earn their attention."

The key to this approach is getting members and prospective members to explicitly agree in advance to receive marketing information.

Email is a delicate long game. Beyond illegally spamming vast swaths of the population, there's no easy way to game or fast-track email marketing—you need to diligently work on growing an opt-in email list over time.

An email list allows your credit union to maintain a connection with your members and potential members in a way that's hard to do otherwise.

When you periodically send emails to readers, you:

- remind them that your CU exists;
- can provide useful and educational information;
- can update them on your latest posts, events and offers; and
- can invite questions and replies to start one-on-one interactions.

We recommend using a third-party email platform to both build your email list and to send email communications. Two of our favorites are MailChimp (*mailchimp.com*) and Campaign Monitor (*campaignmonitor.com*).

In addition to great email design and delivery options, each software platform allows you to create custom opt-in forms and embed them on your website—a key to list building.

How to Grow Your List

A major goal for credit union clients using Currency's Young & Free Marketing Program (*bit.ly/young-free*) is to engage young adults on an ongoing basis. Email marketing plays an important role in helping us achieve this goal.

Since 2011, $816 million Michigan First Credit Union (*michiganfirst.com*), Lathrup Village, Mich., has leveraged Young & Free to successfully grow and nurture an email list of over 27,000 local young adult subscribers. It's taken six years of consistent work and clever list-building techniques to grow this massive list.

Make it very easy to subscribe. There are subscribe buttons and sign-up forms in multiple places on the Young & Free Michigan website (*youngfreemichigan.com*) and the program Facebook page.

In addition, every time the CU runs a contest that includes a public voting form, it always adds an "opt-in to our e-updates" field and connects that field to the email platform. This particular tactic has been a great success.

For example, Michigan First CU runs an annual Young & Free Michigan Scholarship program through which high school and college students submit video and essay entries and compete for more than $85,000 in scholarships.

A part of the selection process includes a public vote. With more than 80 scholarship applicants driving traffic to a voting page through their social media channels, thousands of people visit the website during the voting period and submit a ballot. A significant percentage of this group opts in to the CU's mailing list, giving Michigan First CU explicit permission to communicate by email in the future.

Send consistent, relevant and helpful emails. Michigan First CU only emails people who have opted in. And it provides an opportunity to unsubscribe.

The CU does not take this permission for granted and makes sure that the emails are well written and contain useful educational information about personal finance and links to compelling video content.

Two e-updates are sent every month to the full list and Michigan First CU pushes product offers only occasionally. These emails drive consistent traffic to the website and have had a hand in steady young adult member growth for the CU.

Content Matters

Another credit union client, $1.3 billion Fox Communities Credit Union (*foxcu.org*), Appleton, Wis., has grown a large opt-in member email list.

When the CU started to incorporate the It's a Money Thing financial education content into its member emails, it saw a significant lift in opens and clicks.

"We built an email featuring It's a Money Thing content and sent it to 31,000 of our members and we got amazing results! Way more than we get with our normal emails we send," says Fox Communities CU's Marketing Communications Specialist Amanda Brown. "We achieved a 26 percent open rate and 6 percent total click-through. We are thrilled ... shocked, actually!"

What you put in your emails is incredibly important. Always remember that you have been granted permission to communicate and that permission is easily revoked. Be thoughtful with your email content and tread lightly with sales messages.

Email Is Worth It

If you're spending a significant amount of time, energy and money putting a young adult marketing and education program in place at your credit union, don't forgot about email. It may not be the newest and shiniest marketing technique, but it can be very effective.

Start collecting email addresses and getting permission from your young adult members and prospective members today. Soon, you'll soon be seeing results.

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

Youth Marketing Resources

Teaching Money Skills (*cues.org/0615teaching*)

The Sharing Economy (*cues.org/1214sharing*)

Marketing to Young Adults is Hard (*cues.org/0614youngadults*)

Launching Your Youth-Focused Campaign (*cues.org/0514launching*)

Sustaining Your Youth Campaign (*cues.org/0514sustaining*)

Read more articles by Tim McAlpine (*cues.org/timmcalpine*)

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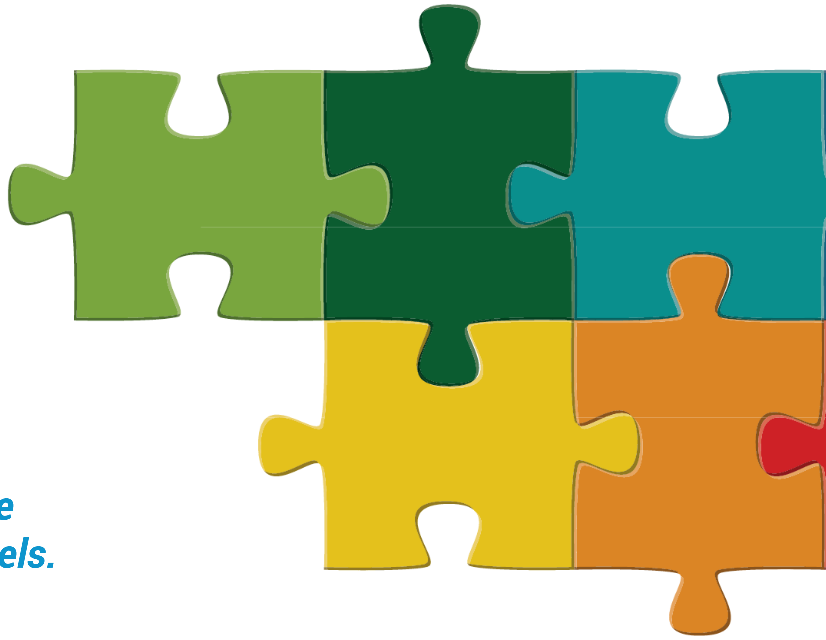
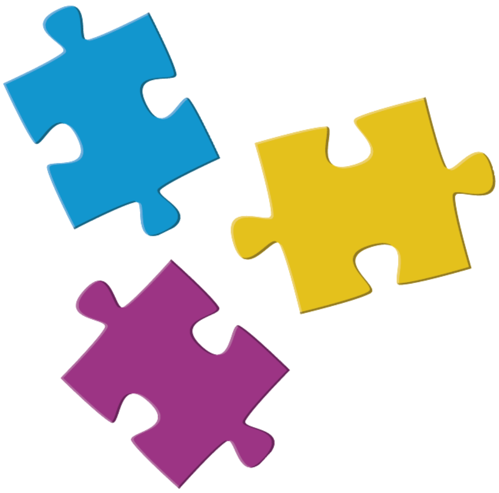


The Sum of the Pieces

Credit unions derive incremental income from credit protection products and strive to deliver them seamlessly across channels.

By Richard H. Gamble

People who think that little things don't add up haven't seen what credit unions like $450 million Tucson Federal Credit Union are doing with protection products like credit insurance, GAP and warranties.



When members choose to buy a protection product, they pay a premium that often is just a few dollars a month, explains Ellen Yacovone, chief lending officer. That little bit of cash provides a lot of value when it's multiplied many times, she says.

It provides value to members who are protected from financial damage when an unforeseen event like an illness, injury, layoff or collision happens; value to the credit union, which realizes a stream of noninterest income and a reduction in the risk in its loan portfolios; value to credit union staff members in the branches and call center, who can see bigger monthly paychecks thanks to incentives earned from selling the products; and, of course, value to the vendors that underwrite the protection products, she summarizes.

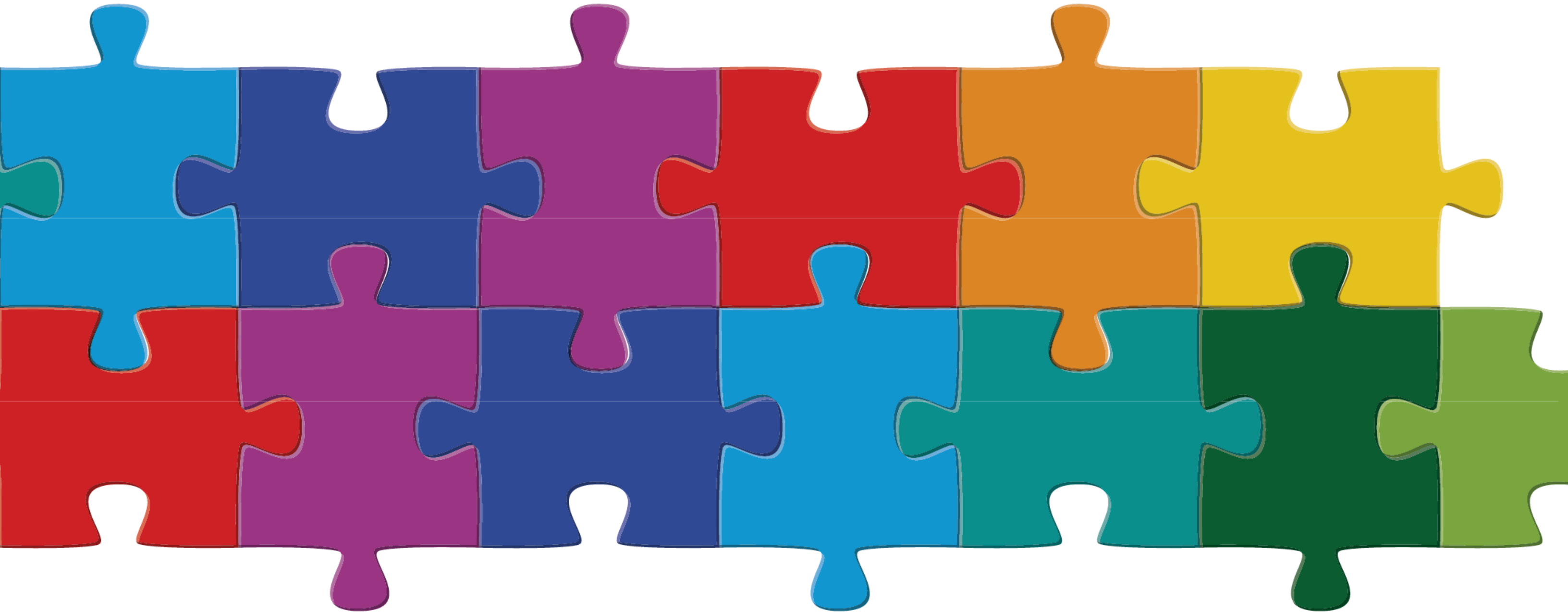
Credit insurance and debt protection are two similar products that make loan payments or pay off a loan if the borrower is unable to do so because of conditions specified in the contract—such as becoming too sick to work, explains Dan Gallagher, product manager for lending and payment security products at CUESolutions provider CUNA Mutual Group (*cunamutual.com*), Madison, Wis. GAP (guaranteed asset protection) insurance covers the outstanding balance on an auto loan if the vehicle is totaled and could cover the deductible for when the vehicle is damaged but not totaled, he points out. Mechanical repair coverage, also known as extended warranty, is designed to keep the member's car and the CU's collateral in service.

These products are familiar commodities to credit unions. While many implementations are smooth, sometimes there are disputed claims in which the CU is caught in the middle and blamed by irate members. Furthermore, at a time when CUs are striving to be seamless and multichannel, these products can be difficult to integrate across all channels.

"I have not seen much interest by credit unions or banks to increase their involvement in insurance products," reports Christine Pratt, senior analyst at Aite Group (*aitegroup.com*), Boston. "Reputation risk has always been a stopper, especially when it comes to examples such as mortgage life insurance and credit card 'job loss' insurance. The products are just too controversial. The most successful melding of auto loans and insurance that I have seen comes from USAA Bank (*usaa.com/bank*)."

But Tucson FCU is unfazed. Thanks to a well-trained staff, it has a penetration rate of almost 50 percent, Yacovone reports; nearly half of the new loans made each month by her CU carry at least one protection add-on. "That's a good number," she says, giving credit to her lenders.

"The frontline staff is key," she explains. "They have to really understand the products, recognize the value they carry and be able to explain them to members and



answer member questions. When they do that, the member can decide whether it's something they want, and a lot of them want it."

$780 million Credit Union of America (*cuofamerica.com*), Wichita, Kan., is also pleased to offer GAP, extended warranties and other protection products, reports CUES member Frank Shoffner, chief operating officer.

"We sell a lot of credit insurance and GAP policies," he notes. "We price them fairly to our members. We're a lot cheaper than the dealerships and somewhat cheaper than other CUs, according to reported data," he says. "These products are especially useful for members who live paycheck to paycheck and don't have the resources to weather a negative event without help."

The sales are also a welcome source of incentive compensation for the loan officers and branch staffs that sell the products. "People look forward to the year-end payout that is their share of the profits from credit insurance they helped to sell," Shoffner says. "It's a significant reward for their efforts."

Staff Training

Bringing and keeping Tucson FCU staff up to speed on these products is done by vendors through webinars and conference calls, Yacovone reports. New lenders get fairly extensive training, typically two to four hours in the first two weeks. Experienced staffers get refresher sessions and help solving any problems they encounter. The products themselves are not complicated, but there are a variety of coverages—and occasionally a new one—that staff has to know about, she reports. A new coverage is available for terminal illnesses, for example. The member doesn't have to die to collect.

It helps that vendors continue to simplify processes, she adds. For example, disability protection used to prorate the part of a month the member was unable to work. Now it pays for the whole month in which a member qualifies for the protection. Lending and operations run the program in partnership, she adds.

In most credit unions, protection products are ingrained in the traditional lending channel supported by trained and motivated staff. These are options a lending officer has been "upskilled" to educate and offer to members, explains Karim Habib, director of lending at CUNA Mutual.

"We partner with approximately 950 CUs to upskill their loan officers, branch managers, call center reps and frontline staff and bring to members a consistent and satisfying experience," he explains. Lenders need to understand multiple products so they can confidently explain them clearly to borrowers and answer questions. Ideally, they should be able to make appropriate recommendations once they understand the member's financial needs and situation, he says. That's a big investment in lender knowledge and a consultative approach.

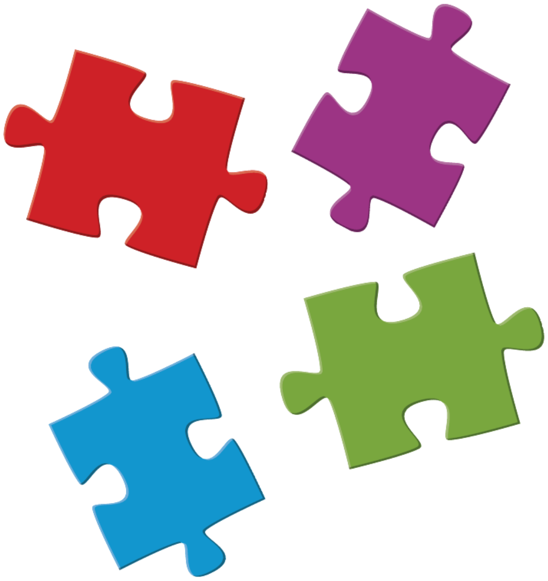
The Channel Challenge

This face-to-face consultative interaction transfers fairly naturally to a live telephone channel but not to a digital, self-serve experience.

"It's not automated," points out consultant Richard K. Crone, head of Crone Consulting LLC (*croneconsulting.com*), San Carlos, Calif. "Members want a seamless process they can access with their mobile devices. Right now, the insurance providers can't spell 'mobile,' and the mobile banking providers can't spell 'insurance.' This is a serious disconnect. CUs need to rethink the value of originating insurance in the branches compared to originating it in the CU's mobile banking app."

In some cases, protection products are offered online for members to select when applying for a loan, Gallagher explains. The loan officer processing the application follows up with the member offline to discuss the optional payment protection options and make sure the member understands what he or she is purchasing or declining.

At Tucson FCU, a call center or branch



employee discusses the protection products with the borrowers before the loans are funded for online applications, Yacovone reports.

Some credit unions email a video to the borrower after the loan has closed. The video presents generic explanations of the products. Borrowers can then buy the products they want, post-closing, and call or come into the CU to ask further questions.

The process may be clumsy, but the products still could bring a market advantage to CUs that offer them because it's a service consumers probably can't get yet from online peer-to-peer lending platforms, according to Habib. "The peer-to-peer fintech lending platforms usually don't offer these ancillary products," he notes, "so that gives CUs one competitive advantage. Of course, that could change."

Claims

Disputed claims are a real if infrequent issue, Shoffner says. "Sometimes we get caught in the middle if the warranty provider thinks the member neglected to service the vehicle," he notes. "We're member-friendly and pick vendors who are the same, so we try to negotiate an outcome that's right for everybody, and our vendors work with us. We have good partnerships with CUNA [Mutual Group] and Route 66 (*route66warranty.com,* Mountain Home, Ark.)."

Members must file a claim to get the protection when a covered event happens. More than half come to Tucson FCU first, Yacovone says. "We help them with the paperwork." A claim is seldom denied, she reports, but when that happens, it can be a problem.

"I've seen just one disputed claim in the past two or three years," she reports.

"The vendors understand that we put a premium on member satisfaction, and they work with us to find a satisfactory solution."
Ellen Yacovone

"The vendors understand that we put a premium on member satisfaction, and they work with us to find a satisfactory solution. Sometimes we can get the member to understand that he or she isn't really qualified under the contract. In one case, a vendor paid a claim that wasn't technically covered to keep up good relations."

Claims can be as small as a current credit card balance of $100 or less or as high as $40,000 to $50,000 on an automobile, she notes.

Routine Operations

For selling protection products, many CUs know the ropes. While it took some effort to increase protection product sales, they pretty much "run on auto-pilot now," Shoffner reports. "We just make spot checks to be sure our people aren't overselling the products." Revenue from protection products is flat this year, he notes. "People don't refinance their automobile loans when the new rate would be higher, so refis have pretty much run their course for now."

Tucson FCU offers the products to all members when they take out any loan except home mortgages and home equity lines of credit. The penetration there was so low that the CU stopped offering the products, Yacovone explains. "Premiums are based on the size of coverage, and the size of those loans meant the premiums were higher, so most members declined the protection. They usually rely on other resources to back up those loans."

The multiple protection coverages can be packaged. Tucson FCU offers a platinum package that includes protections for life, disability, involuntary unemployment, accidental dismemberment terminal illness, hospitalization and family leave; a gold package that includes all of these except involuntary unemployment; a silver package with disability and involuntary unemployment; and a bronze package with life, accidental dismemberment, terminal illness, hospitalization and family medical leave.

Loan repayments can be protected if the member is sick, injured, laid off or dies. Typically, the policy makes the payments over the period when the protected member is unable to, due to a covered condition, or pays off the loan balance in the case of the borrower's death or a totaled car, Yacovone explains.

In most cases, the member takes the protection or declines it at the time the loan is made, and that choice is in effect for the life of the loan, Yacovone reports. They're free to drop or add coverage at any time, but few do, she says.

"Sometimes after an event, a person might decide to add coverage or might hear about the benefit from a friend and seek it, like adding GAP for an indirect auto loan."

Tucson FCU does a lot of indirect auto lending and has no opportunity there to sell protection add-ons, Yacovone reports. "We've talked a bit about marketing the products to members who joined to get the indirect car loan, but it's complicated and we haven't tried it yet," she says.

The premiums for the protection products are folded into the loan so the member makes only one payment to the CU. Tucson FCU pays the vendor its share monthly, pays the seller commissions earned monthly and carries the rest to the bottom line.

CU of America has streamlined the offline sale of vehicle loan protection products somewhat, Shoffner reports. "All our frontline staff has to do is click on boxes for the products the member wants. Previously, they had to go to a special website and key in vehicle information, then download or print out documents from that website, and file them along with the loan application. But our IT folks found a way to package it so that it's all part of the closing process. That convenience has increased sales."

While most protection products are familiar fixtures, some new bells and whistles have popped up. Insurance provider SWBC (*swbc.com*), a CUES Supplier member in San Antonio, has a new protection variation for financial institutions that it calls PowerBuy, which protects the borrower's down payment.

"GAP would pay off the remaining balance on a vehicle loan if the vehicle was totaled, but the member's down payment could be lost," explains Cory Jefferies, EVP/financial institutions group. "The member may have made a large down payment that could be recovered with this protection."

Another product feature available from CUNA Mutual is GAP +, which pays off the loan on a destroyed vehicle and provides the insured with $1,000 toward the purchase of a new one, Shoffner reports. CU of America offers that product.

While a protection product can significantly reduce the risk of the loan, Tucson FCU, like all U.S. lenders, cannot by law make the loan contingent on the purchase of protection.

"The loan is always approved before there's any talk of these protection products," Yacovone says. Success in selling protection products affects risk management strategy in small ways, she explains. "It doesn't really affect our lending risk appetite, but we monitor it, and it's one of the factors that goes into calculating the loan loss reserve."

Credit union leaders value the reduced risk and the member service of protection products, but they pay particularly close attention to the noninterest revenue the products can generate. Yacovone reports that non-interest income from protection products has more than doubled from 2014 to 2017 at Tucson FCU and now accounts for 17.5 percent of all noninterest income, compared to 11.5 percent in 2014. And it's still going up. "We've definitely seen increases in the eight years I've been here," she notes.

Revenue from protection products is not necessarily steady, says Tyreo Harrison, another SWBC EVP in the financial institution group. "It goes up and down with loan demand, particularly for vehicle financing. It's somewhat cyclical and seasonal."

Richard H. Gamble *is a freelance writer based in Colorado.*

Related Resources

Loan Zone: Auto Loan Compliance, *cues.org/0118loanzone*

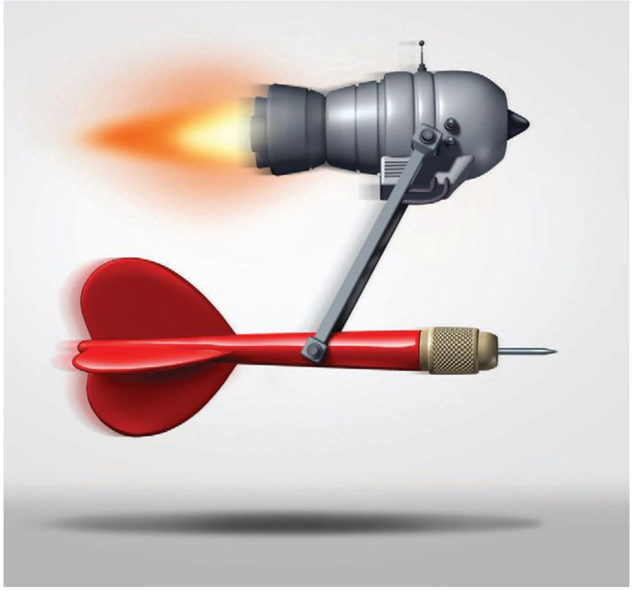
Improved Visibility for Indirect Lending, *cues.org/0517indirect*

Planning for Rising Rates, *cues.org/0717rates*

Income Sources That Build Goodwill, *cues.org/0317income*

CUES School of Consumer Lending™, Aug. 13-14, Denver, *cues.org/socl*

CUES Advanced School of Consumer Lending™, Aug. 15-16, Denver, *cues.org/advsocl*



Powering ROI

Credit unions must diligently select vendors, manage third-party risk up front and ensure their investments hit the mark over time.

By Nick Lane

Here's an analogy that relates to the current state of vendor management at many credit unions: It's time for a new car. You research your options carefully online, comparing prices, special offers and reviews of new features. During the test drive, the salesperson enthusiastically describes and demonstrates all the technology assists. Back at the dealership, you negotiate a good deal, opt for financing through your credit union, get a quick tutorial on the controls and directions on where to find additional information, and drive happily off the lot.

Over time, though, you feel vaguely disappointed with your purchase. The sales demonstration made all the features seem so easy, but you haven't had time to figure out the navigation system and real-time traffic updates. And isn't there a dash cam somewhere? Your car gets you where you need to go, but you have a nagging feeling you're missing out on something.

Vendor management typically follows the same arc—with a strong focus on selection and risk management up front but a disconnect in continuing oversight to ensure system optimization and to monitor pricing over time. Cost and potential benefit are assessed at the beginning of a relationship, but few vendor management programs emphasize performance, which involves assessing whether the services deliver on expectations cost-effectively and ongoing due diligence over the life of the contract.

Current vendor oversight tends to be focused on risk management, which satisfies regulators but may give short shrift to ensuring that employees are maximizing the output of systems and services to get the most for the CU's investment. In the future, vendor management should put equal emphasis on regularly analyzing costs and benefits alongside monitoring risk. The following four strategies can help.

1. Close the Functionality Gap

New solutions are often launched to great fanfare and a commitment to train staff on the system's full capabilities. But over time, employee turnover and system upgrades may combine to decrease optimization. New employees don't get the training and support they need. Capabilities used infrequently get left by the wayside. And enhancements go unlearned. Like every other job skill, the know-how to wield the intricacies of a robust technology system develops over time with experience, tiers of training and refreshers, and ongoing support from managers and vendors. Training is not one and done.

The responsibility to ensure that systems are deployed optimally rests with both the CU and the vendor. The CU faces financial, strategic and reputation risks in allowing its technology investments to languish below full functionality. The managers who vetted the solutions so carefully must follow through on implementation; training and periodic evaluations make the most of these tools.

At the same time, vendors should proactively work with client CUs to ensure they're getting full value for their purchases. By offering regular training and checking in with users, vendors can better deliver on the promise of their offerings and ensure that clients are getting what they paid for.

2. Watch the Wallet

Closely related to the challenge of optimizing system functionality is vigilance in monitoring the costs and benefits of solutions and vendor relationships. A stark reality is that variances in financial services technology pricing are neither rational nor transparent. Services are often negotiated without clear information about market pricing. CU managers shopping for a new system don't find the costs listed on vendor websites or printed in brochures. They do what they can to advocate for the best possible pricing and terms. Before signing off, they should carefully review and ensure that they understand all aspects of pricing.

Changing circumstances over the life of a contract may affect pricing during its term—and most certainly influence decisions about negotiating a renewal of the relationship. For example, as services become more commoditized, market prices typically compress. However, many contracts include price escalators, so unless these are actively managed, costs will go up when they should probably go down. This cost risk has a direct impact on return on assets and return on equity.

Another consideration with some systems is the volume of transactions, which may increase significantly as a credit union grows over the term of a contract. Tiered-pricing thresholds can be negotiated so that per-transaction costs decrease as volumes rise.

When it's time to negotiate a contract extension, a CU might be 30 percent or more over current market pricing through a combination of market and volume factors. But, again, it's difficult for managers to determine where their organization stands. The vendor may offer a 15 percent discount for renewal, which seems like a good deal even though the CU is missing out on an additional 15 percent that new clients are getting. The result is a great deal of misalignment in pricing across the industry.

Whenever a major vendor contract comes up for renewal, it absolutely should be renegotiated. Managers should come to the table with a thorough understanding of price escalators in the current contract, such as a Consumer Price Index or Employment Cost Index clause. And they should do some market research or hire a vendor that negotiates regularly for many CUs to find out about the impact of factors that might call for further discounts in pricing, including the aforementioned volume growth, projections for growth and price compression caused by commoditization.

3. Right Size Vendor Risk Management

In an industry dealing with a burgeoning regulatory burden, most CUs have done a good job with their vendor risk management programs, perhaps even overinvesting time and resources. The Federal Financial Institutions Examination Council guidance on risk management (*tinyurl.com/ffiecrm*) calls for ranking vendors according to the complexity and importance of the services provided and the relative risks posed in each contractual arrangement, beginning with tier 1 or "critical" vendors for each CU, tier 2 or "significant" vendors and so on.

In assigning these risk designations appropriately, CUs commit to providing the optimal level of oversight and review to each tier of vendors. For CUs in the $300 million asset range, we typically see nine tier 1 *and* tier 2 vendors. The number of vendors in these top categories increases to about 20 for organizations in the $3 billion range. These averages may not match your situation, as oversight requirements vary based on complexity of operations and reliance on vendor solutions. A best practice is the use of a third-party risk management system as a means of establishing a workflow to track vendors, risk ratings and required documents.

Within the vendor management framework, each tier of vendors is subject to regular reviews based on risk potential. An annual review of critical vendors, for example, might involve reviewing business continuity plans and financial statements for these organizations. The review criteria for lower tiers are set commensurately, so risk managers are focusing their oversight appropriately. It may be possible to streamline vendor management criteria for some tiers without increased risk.

A stark reality is that variances in financial services technology pricing are neither rational nor transparent.

4. Protect Your Interests

These practices can help ensure that your credit union is getting the most for its investment in technology systems and services:

Seek user feedback. Set up a formal process to survey a sample group of users of your major systems to gauge their satisfaction. Focus on such topics as member and employee satisfaction, functionality and ease of use, integration with other services, and training and support. While regular surveys and feedback sessions are useful, a user survey should be conducted at a point that would give the credit union adequate time to go through a formal RFP process, select a new vendor and complete the conversion if a replacement system is warranted. Depending on the scope and complexity of the system, the timing of these user surveys could be anywhere from 18 to 30 months before the current term date.

Renegotiate major vendor contracts at every opportunity. Revisiting pricing and contract terms will help ensure that your credit union's outlay is aligned with current market pricing. And this process provides an opportunity to negotiate key contract terms that may not have reflected your organization's best interests previously. One example we see consistently is service-level agreements. The FFIEC guidance is clear on what credit unions should look for in SLAs, but these are often either limited or left out of contracts. If credit union staffers handling the negotiations are not fully versed on what items to ask for and how those asks should be spelled out, SLAs and other contract terms that don't adequately protect your credit union's interests may result.

Review vendor risk management practices. Evaluate the criteria you've established to determine your critical and significant vendors. Is the process creating an ongoing commitment that consumes more resources than are really required to manage vendor relationships? Simplifying could free up capacity to focus on the functionality and productivity of these systems and services. Reread your regulators' guidance to ensure your program does what it's designed to do without going overboard on the time and resources you commit.

Get the help you need. Technology services can vary significantly from client to client in how they are optimized and priced, and in how contracts are written. A third-party strategic partner can provide your CU with rational, informed insight and guidance in an often-irrational marketplace. Getting support for negotiations can provide a clearer view of terms and pricing in line with the current market and a game plan to optimize performance of the system and service throughout the contract term.

To head off a disappointing purchase like the one in the opening car-purchase analogy, commit to operationalizing all those features and functions that won you over in the first place. Don't let other responsibilities and projects take precedence over getting your money's worth out of key technology solutions.

Nick Lane *is a consultant with CUES Supplier member and strategic provider Cornerstone Advisors* (crnrstone.com)*, Scottsdale, Ariz.*

More on Tech Spending and Vendor Management

Vendor Performance Management, a CUES Elite Access Virtual Classroom course on Feb. 20 and Feb. 27 (*cues.org/eliteaccess*)

Tech Time: Building Security Into Your RFPs (*cues.org/1117techtime*)

Tech Time: 5 Pointers to Make User Conferences…Useful (*cues.org/0917techtime*)

Cornerstone Advisors strategic technology services (*cues.org/cornerstone*)

School of IT Leadership, Sept. 12-14, Denver (*cues.org/soitl*)

A Better Way to Learn Online

CUES Elite Access Virtual Classroom (*cues.org/eliteaccess*) offers an innovative take on online education that is closer to a live experience than ever before. You'll get maximum educational value while minimizing travel and time away from work. Each course consists of:

- a series of 60-minute, live-taught online sessions;
- prework and between-segment exercises;
- collaboration with like-minded learners in real time; and
- direct access to experienced facilitators.

We have two courses planned for new and experienced leaders:

Vendor Performance Management: Moving beyond due diligence and compliance, credit unions must embrace a new way of thinking about vendors—as strategic partners at the enterprise level. This new way of thinking reinforces that CUs should work across the enterprise to improve their vendor performance, lower vendor costs and manage vendor risks. The class is scheduled for 1 p.m. Central on Feb. 20 and Feb. 27.

8 Strategies for Emerging CU Leaders: You may be just starting your career, or you may be a seasoned CU veteran who wants to advance. Jim Bouchard, author of *The Sensei Leader*, will give you clear and actionable strategies to change your life, contribute to your organization and position yourself for leadership success. Class will be in session at 12 p.m. Central on March 20, March 27 and April 2.

Cyber Security: In this three-part course, you will review the need for security awareness training and having an effective and realistic training program and incident response plan. The course will start by defining the current threats to a network and how those threats can lead to a breach. Attendees will discuss common gaps and strategies to mitigate them in your organization. The sessions are scheduled for 1 p.m. Central on May 9, May 16 and May 23.

Women in Leadership: Running (Your Mouth) with the Big Boys: Female executives and up-and-comers don't want nor need special treatment—just a seat at the table. Over the two-session course, you'll learn to ask for new opportunities and confidently frame your skills and competencies. The sessions are scheduled for 12 p.m. Central on May 15 and 22.

Promoting a Culture of Learning: In this workshop, attendees will discuss what a learning culture is, why it's critical for your CU and what the benefits are for shifting. You will have an opportunity to assess your company and see how aligned you are with other leaders. The course is scheduled for 12 p.m. Central on June 13 and June 20.

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Here are some of our recent episodes:

CUES 46: New Tax Reform and the Impact on Executive Benefits Expenses: In this episode, John Pesh, director of executive benefits at CUESolutions provider CUNA Mutual Group, discusses how the provision of a new excise tax can greatly impact credit union organizations, considerations for reviewing and implementing compensation programs, and an industry perspective on what credit unions are doing to curtail this tax.

CUES 45: Positive Impacts on Strategy and Member Services: In this episode, we explore the steps to easily incorporate positive, organization-wide efforts on strategy and member services.

CUES 44: Improving Your Communication: In this episode, we identify the five modes of communication, discuss phrasing statements to bring out the best in your communication, and identify the qualities of highly effective communicators.

CUES 43: One-on-One Interview with CUES President/CEO, John Pembroke: As part of a quarterly series, Pembroke discusses how to uphold a good relationship with the board and highlights topics and trends within the credit union industry.

New! Governance, Exec Benefits E-books

Two new e-books from CUES offer recommendations on governance and an overview of structuring deferred compensation for executive retention.

Beyond the Boardroom: Key Insights and Challenges on Credit Union Governance 2018 (*cues.org/governancereport*), developed by CUES strategic partner Quantum Governance (*cues.org/qg*), Vienna, Va., analyzes survey results addressing issues from recruiting directors to building a leadership culture.

Non-Qualified Executive Benefits: A Guide for Credit Union Leadership (*cues.org/cmg*), published in partnership with CUESolutions provider CUNA Mutual Group, Madison, Wis., explores the whys and hows of developing 457(b), 457(f) and split-dollar life insurance programs to recruit, retain and reward top executives.

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CUES School of Business Lending™ II: *Financial Analysis and Diagnostic Assessment* (*cues.org/sobl2*), July 16-20 in Seattle, expands its focus to financial statement analysis, industry sector risks and the business life cycle.

CUES School of Business Lending™ III: *Strategic Business Lending* (*cues.org/sobl3*), Sept. 10-14 in downtown Denver, focuses on realistic projections, effective credit memorandums, and identifying credit risks and how to negate their impact. CUES members save when they register for all three schools at once and attend in one year.

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Learn more and register at *cues.org/schools*.

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CUES SCHOOL OF BUSINESS LENDING™ I: *BUSINESS LENDING FUNDAMENTALS*
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May 20-25
UVA Darden Executive Education
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Crowne Plaza Seattle

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July 19-20
Crowne Plaza Seattle

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10 Ways to Foster Leadership Development

By Dan Rockwell

Results are the by-product of high expectations, efficient processes and constant improvement. The focus of constant improvement in organizations often centers on procedures and processes.

But what about people? The future is about people. The real test of your leadership is the growth and development of people. If personal growth and leadership development are the priority of leadership, the real question is how to inspire growth and development. Community is the essential ingredient.

How did you get where you are today? People! A long line of people stands behind you and your success. A teacher or manager took you under his or her wing and ignited your transformation.

As a credit union leader, you need to build an organization where people fuel each other's development.

When you're making leadership development a community activity, imagine an environment that ignites and fuels development:

1. Let people see your development. How many people know your current learning focus? Public learning changes organizational culture.
2. Ask others about their development. Everyone in your organization needs a personal development statement. "I'm developing ..." If you can't describe the focus of your development, you aren't developing.
3. Share the books and blogs you're reading.
4. Begin meetings with personal stories of growth and development. How are people changing?
5. Declare your development goals.
6. Discuss lessons from failure. "I'm working to delegate more effectively, but I find it hard to let go."
7. Seek feedback publicly.
8. Hire people who love learning.
9. Focus on one simple area of development at a time. You're too busy to change too many things at once.
10. Connect with people who passionately develop themselves. "Show me your friends and I'll show you your future." *-Unknown*

Who ignited or fueled your transformation as a leader? How might your credit union make leadership development a community activity?

Dan Rockwell, *based in central Pennsylvania, is an* Inc. *magazine Top Fifty Leadership and Management Expert and Top 100 Great Leadership Speaker, and is the author of the Leadership Freak blog* (leadershipfreak.blog).

Read this post and leave a comment at cues.org/120617skybox.

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Ian Warner, president/CEO of board portal company and CUES strategic partner Aprio (*aprio.net*), Vancouver, British Columbia, in "Six Ways to Increase Your Board's Transparency" on CUES Skybox: *cues.org/120417skybox*

" ... Because [deferred compensation] plans are complex and subject to so many possible circumstances, the credit union and the executive should have separate legal counsel write answers to such questions into the agreement, before any contracts are signed."

John Pesh, executive benefits director for CUESolutions platinum provider CUNA Mutual Group (*cunamutual.com*), Madison, Wis., in "Answer the Deferred Comp 'What-ifs'" on CUES Skybox: *cues.org/121117skybox*

" ... directors should focus on developing policies, strategic plans, executive limitations and statements of value. The board assists in establishing the credit union's purpose, mission, plans and goals. Then, it delegates authority to the CEO to execute on its vision within the parameters it has set ... ."

Tim Harrington, CEO, and Kevin F. Smith, publisher, of TEAM Resources (*forteamresources.com*), Tucson, Ariz., in "Governance Happens 'Outside of the Bowls'" on CUES Skybox: *cues.org/121817skybox*

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