CU MANAGEMENT

FEBRUARY 2021 • IN-DEPTH INFORMATION FOR CREDIT UNION LEADERS

MORE THAN *Just Numbers*

CUs build up analytics strategies with new data and business intelligence

2020 CUES EMERGING LEADER
Meet Lindsey Walker, CCM

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Be efficient and empathetic

GROWTH
3 solid strategies for tough times

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For more information on funding employee and executive benefits, call the CUNA Mutual Group Executive Benefits Service Center at 800.356.2644, ext. 665.8576.

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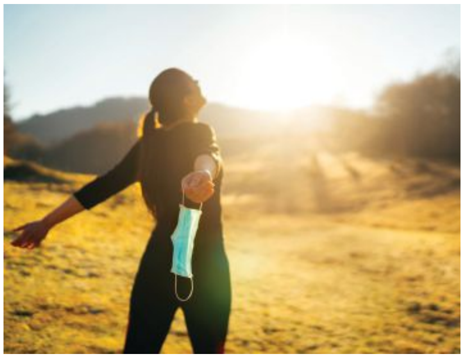

Web-Only Bonus

The Value of Valuing Mental Health

The need for services that protect employee well-being and performance is greater than ever before. Some companies are taking steps to bring these issues out in the open.

cumanagement.com/0121mentalhealth

CUES Video

How Can Leaders Stay Calm When a Storm Hits Their Organization?

CUES member Wesley Williams, VP/information technology for ValleyStar CU, describes three touchstones that are helpful in leading through uncertain times.

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Online-Only Column

Diversity Insight: How Hope CU Makes Loans in Economically Challenged Areas

This community development financial institution works to counter racial disparities in the Deep South that deepen the pandemic's impact.

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CUES Podcast

NCUA's Pandemic Support and ACCESS Program for Diversity, Equity and Inclusion

Rodney E. Hood discusses the National Credit Union Administration's DEI efforts and key things the agency did to aid CUs through the COVID-19 pandemic.

cumanagement.com/podcast107

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LET'S CONNECT

Comments, suggestions and letters can be sent to **theresa@cues.org**.
TWITTER: @tawitham
LINKEDIN: Theresa Witham
INSTAGRAM: tawitham

Asking *Two Favors*

Today I am asking for your assistance in two ways that can help strengthen the industry.

First, please contribute your credit union's 2020 compensation data to both the CUES Employee Salary Survey (*cues.org/ess*) and the CUES Executive Compensation Survey (*cues.org/ecs*). When the results come out later this year, they will compare year-over-year data and see how COVID-19 affected compensation across the industry. (Our friends at CUESolutions provider CUNA Mutual Group, Madison, Wisconsin, warn that economic fallout from COVID-19 could also impact your executive benefits packages. They explain why you should re-assess your plans—and adjust them as needed—starting on page 18.)

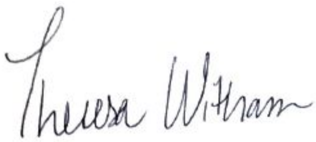
In addition to providing data on the impact of the pandemic, the peer-group and year-over-year pay increase trends from the two CUES surveys will help your credit union set future compensation plans. If you participate by March 31, you'll receive a 20% discount on your purchase of the survey results. If you're a CUES Unlimited+ member, you can access the survey results for free.

The second thing I am requesting is for you to encourage and endorse at least one credit union employee to apply for the 2021 CUES Emerge program at *cuesemerge.com* by Feb. 10.

New in 2020, the CUES Emerge leadership development program was a huge success despite the pandemic, in part because it includes a robust online education phase. The seven-week online course includes live instruction and an opportunity to collaborate with other participants. The program then culminates with a project presentation. In all, this is a tremendous opportunity for participants to improve their strategic thinking and leadership skills.

Any employee who has not yet achieved the level of CEO is eligible—but each applicant needs the endorsement of a supervisor or credit union leader. I believe we all know at least one person who could benefit from participating. I encourage you not to wait for staffers to reach out to you for an endorsement. We should all be lifting up the promising leaders in our organizations. Your faith in their abilities and promise to the industry will surely be a confidence boost.

Read about the first CUES Emerging Leader, Lindsey Walker, CCM, on page 26. And then don't delay in encouraging your staff to raise their hand by Feb. 10 at *cuesemerge.com*.



Theresa Witham
Managing Editor/Publisher

P.S. CUES has paired up with renowned Cornell University to bring eCornell certificate programs to the industry! We are offering courses on DEI, strategic HR, digital marketing and management. All were developed specifically for credit unions, are available only from CUES, and led by Cornell faculty. Visit *cues.org/digital-learning* for details.

YOUR THOUGHTS

WHEN YOU WERE A YOUNG EMPLOYEE, HOW DID YOUR BOSS ENCOURAGE YOUR DEVELOPMENT?

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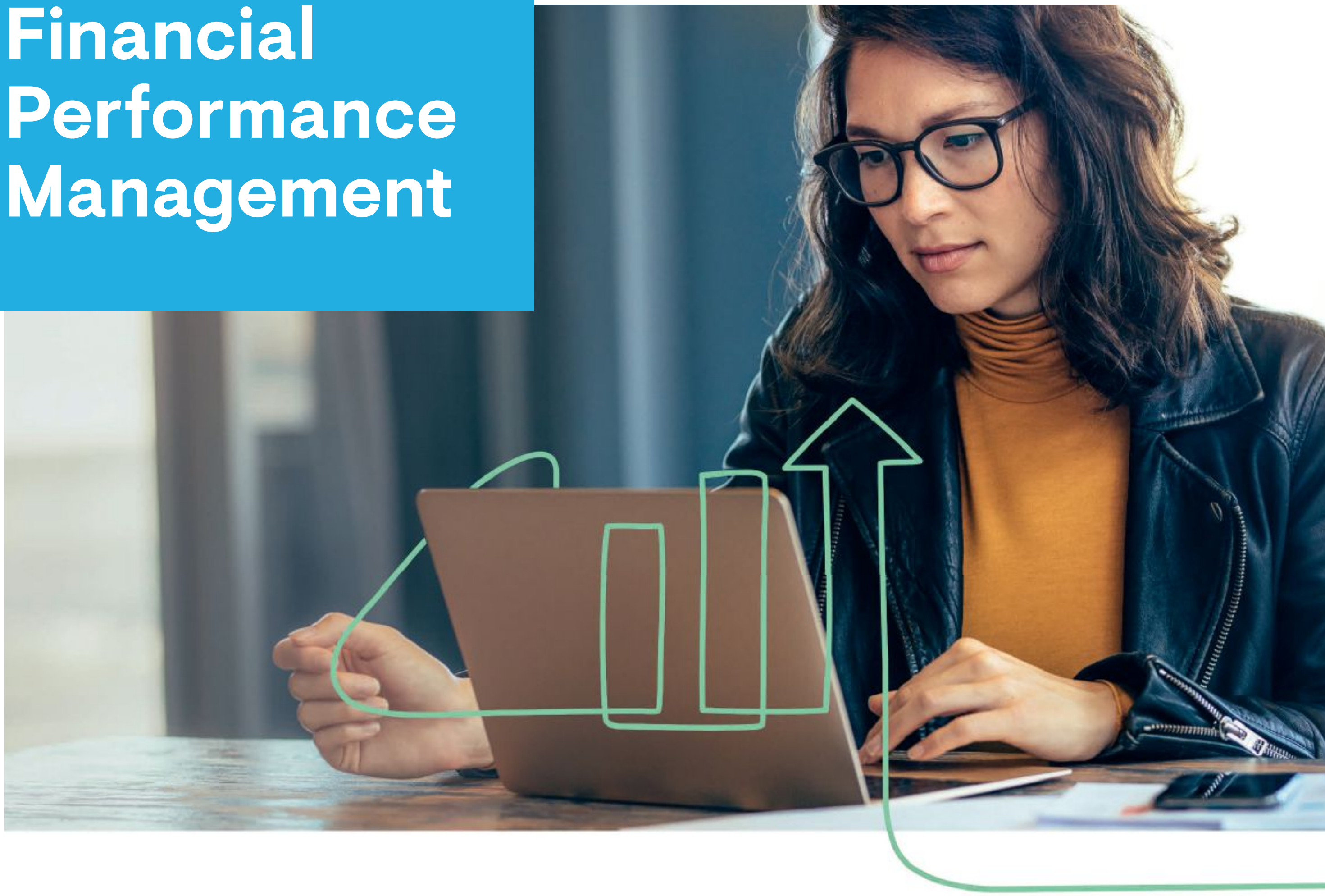

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2021 Auto Lending *Outlook*

2020 was a year of unprecedented changes—a global pandemic, country-wide lockdown, massive loss of employment, economic downturn and an uncertain future outlook have combined to create unique challenges for individuals and lenders alike. What impact has the COVID-19 pandemic had on automotive lending?

In a free whitepaper from CUES Supplier member SWBC (*swbc.com*), San Antonio, industry experts weigh in on the most significant factors affecting the auto lending industry in 2020, offer insightful analysis and provide a forward-looking perspective for 2021.

LABOR MARKET DISRUPTIONS

The coronavirus and subsequent social distancing measures put in place to help slow the spread of the disease caused major disruptions across nearly all industries in 2020.

Although we have somewhat recovered from the initial shock of job losses in the spring, mass furloughs and layoffs have negatively affected millions of Americans. Between February and August 2020, the U.S. lost nearly 11.6 million jobs. This created very real economic hardship for many families, which in turn is driving up delinquency rates.

RISING ECONOMIC HARDSHIP

Accounts in hardship are those that have been affected by a natural or declared disaster, reported as in forbearance, reported as deferred, or reported as having a frozen account status and/or past due notice.

According to industry analysts from Black Book (*tinyurl.com/y6k72zb4*) at the end of September, "The number of automotive accounts in hardship jumped substantially in April and kept increasing through June across all credit risk tiers. The numbers stabilized in July and currently, about 4.3% of all accounts are in hardship, which is almost a 1,400% increase over last year. As deferrals expire in the upcoming month, coupled with a high unemployment rate, lenders expect a large portion of these hardships to become delinquencies."

DELINQUENCIES POISED TO INCREASE DRAMATICALLY

About 1.9 million vehicles were repossessed in 2019. In the early stages of the pandemic, most states enacted moratoriums on repossessions and most lenders offered deferral programs to help borrowers through the first several months.

By the end of 2020, many of those deferral programs had expired in most areas of the country. Per Black Book, "Our survey of lenders and automotive recovery companies suggests that the volume of repossessed vehicles will at least double in the next six months. We expect that there will be substantial challenges at every step of the process as recovery, transportation, and disposal are not fully recovered."

Get the full report at cumanagement.com/2021autowhitepaper.

Board Management Software *Buyer's Guide*

Are you trying to navigate the often-confusing world of board management software? If so, this guide is designed to help. Free from CUES Supplier member Passageways (*passageways.com*), Lafayette, Indiana, the guide dives into what board software does, who it's for, why it's important and how to fairly make the case that your work would be strengthened by having one.

In this whitepaper, Passageways first looks at the specifics of the board management technology, including the features, security and accessibility you should demand. Then it considers director usability and accessibility, exploring why board member adoption of your solution is vital and why design matters in getting directors to use a product.

Do you have directors who remain resistant to technology? This guide will show you what to look for to guarantee your board actually uses a solution.

It also examines the business case for board management software, equipping you to make the decision by exploring the hidden costs of staying with the status quo, looking at how to choose a vendor and how to understand the differences among industry vendors.

Download at cumanagement.com/boardsoftwarewhitepaper.

CUES SUPPLIER MEMBER SPOTLIGHT

Susan F. West

Title: President

Company: Plansmith

Phone: 800.323.3281

Email: swest@plansmith.com

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We welcome you to hear firsthand from leaders of Sun Community Federal Credit Union, as they discuss their struggles before, and life after, using Plansmith's budgeting software and outsourced ALM/IRR solutions.

Visit *bit.ly/CUSpotlight* to watch the video now!

More Than *Just Numbers*

WITH ANALYTICS FOUNDATIONS IN PLACE, CREDIT UNIONS CAN EXPAND THEIR DATA SOURCES AND BUSINESS INTELLIGENCE REACH.

BY KAREN BANKSTON

As more credit unions firm up their data analytic foundations, excitement over early wins may fuel speculation about what else is possible on the business intelligence front. What other organizational issues can be identified and addressed through these evolving tools, and what other data sources are available?

Weekly sessions on BI planning at $1.5 billion TwinStar Credit Union often “end up going so far down rabbit holes about what we could do” with existing and future data sources, such as the ability to tap into social media, says CUES member Elkan Wollenberg, VP/digital transformation of the Olympia, Washington, credit union (*twinstarcu.com*).

“Google Analytics will give us a ton of information about website usage, but if we could compare that with other data sources, such as what members are saying when they call us or come into the branch, that would really expand our centralized view,” Wollenberg says.

Credit union leaders should let strategy guide the identification of new avenues to track down information and deploy data analytics, recommends Emily Engstrom, director of client relations with CUNA Mutual Group’s AdvantEdge Analytics (*advantedgeanalytics.com*), Madison, Wisconsin, a CUESolutions provider.

Otherwise, she notes, “when credit unions start thinking about what type of data they need to execute their data analytics strategy, they can easily go into analysis paralysis because there are so many sources.”

START WITH A STRONG USE CASE

Information stored in internal systems grew exponentially during the COVID-19 pandemic as members relied increasingly on digital channels, applications and payment methods. And credit unions can further augment their in-house data stores with information from third-party, social media and vendor sources.

“Access to data is not really the problem. Where a lot of credit unions start to struggle is that they don’t know what they’re trying to solve for. The data itself just doesn’t rain insights,” Engstrom says.

"They need to decide what use case they're trying to tackle and then figure out what data is needed."

That strategy-first approach offers three benefits, she explains: It's action-oriented. It will provide some quick wins in solving key problems. And it can be executed relatively quickly and with less cost because the data analytics team won't need to devote time, energy and resources to gather unnecessary data.

TwinStar CU has four overarching and intertwined strategies—data, digital evolution, member experience and culture—that guide its organizational structure, the allocation of resources for initiatives and the identification of key performance indicators to measure the return on those investments.

"Data analytics and BI have been on our radar for years now, and along with a lot of other credit unions, we weren't exactly sure how to execute well," Wollenberg says. "There's a big difference between consolidating all your data into a warehouse versus actually consuming it in a meaningful fashion."

Still, that consolidation process—bringing together information into "a single source of the truth"—is an essential foundation to facilitate data gathering and analysis, he says. TwinStar CU worked with the Knowlton Group (*knowlton-group.com*), Sandwich, Massachusetts, to export, transform and load data into its warehouse. The credit union hired a director of business intelligence in the summer of 2020 to manage data analytics and work with colleagues across departments on meeting their BI needs.

Over time, the data analytics initiative at TwinStar CU will phase out the "ton of spreadsheets" operations, accounting and other managers rely on to generate reports—with the goal of moving from "I think I know something" to being able to back up (or refute) those assumptions with evidence in near-real time.

For example, assembling all member data in one place can facilitate a more accurate view of demand for personal finance management tools or card controls rather than deciding whether to offer those services based on managers' perceptions, Wollenberg says.

Another example is testing internal opinions that TwinStar CU's online and mobile banking channels are subpar compared to the offerings of megabanks and fintechs. "But if we really look at the data, according to our membership, it's good enough for them," he notes. "However, our digital and experience strategies dictate that good enough isn't acceptable. We want our online and mobile offerings to be a reason for people to join the credit union. We achieve this by leveraging data analytics to hyper-focus our efforts on removing friction points within our online and mobile member experiences."

TAP INTO AN INTERNAL WEALTH OF DATA

TwinStar CU's primary sources of data are its Symitar core system (*symitar.com*), MeridianLink online consumer lending platform (*meridianlink.com*), and CUES Supplier member Q2's online and mobile banking channels (*Q2.com*). It is also working to integrate information generated by a new mortgage origination system and its CRM software. A voice-to-text project is underway to capture the content of member service calls, and the credit union also plans to incorporate member input from its online chat system as part of its three-year vision for building BI capabilities.

With an analytics strategy in place, the starting point for most CUs launching their data analytics journey is to ensure ready access to core system and other internal data, says Vicki Potter, senior analytics performance team lead with AdvantEdge Analytics. From that foundation, she recommends moving on to ACH data, though she cautions that it can be haphazard. For instance, trying to figure out which members use their credit union accounts to pay for Amazon purchases can be challenging when those transactions are posted with multiple descriptors, like Amazon, AMZ and other variations.

> **"When credit unions start thinking about what type of data they need to execute their data analytics strategy, they can easily go into analysis paralysis because there are so many sources."**
>
> – Emily Engstrom

Vendors that offer to conduct those searches have sprung up, but their services can be pricey. "Doing your own searching on keywords won't be perfect, but it will give you some insights on money that's leaving the credit union," she says.

Credit unions can leverage their trove of internal data holistically by identifying use cases to improve operational efficiency, risk management, and employee recruitment and retention, to name a few examples, Engstrom recommends. By convening a "center of excellence" or cross-functional teams to brainstorm possible business intelligence projects, credit unions can gain an enterprise-wide view of how to make the biggest impact with their investment in analytics.

For example, organizations that had their data organized and accessible when the pandemic halted normal operations last spring "could quickly jump in and assess which branches to close down and which ones to keep open in some fashion and then alert their members to go to those branches," she explains. "They could look at ACH data to identify which members had direct deposits for payroll stop and which members were receiving new government employee benefits through unemployment coverage, so they could do some proactive outreach to those members. Other credit unions had to spend weeks up front getting that data together and organized before they could take action."

AIM TO SOLVE BIG PROBLEMS

A major challenge for credit unions in 2021 will be proactive credit risk management by projecting which loans are likely to become delinquent, says Suchit Shah, founder and chief operating officer of CUES Supplier member CU Rise Analytics (*cu-rise.com*), based in Vienna, Virginia.

"Every credit union and bank in the United States has granted payment deferments, so members who've suffered pandemic-related income loss could skip payments," Shah says. "Those missed payments are not being reported to credit bureaus to protect members' credit standing, making the aggregated credit scores they produce essentially irrelevant for the time being."

To fill that information gap about members' current credit standing, CU Rise Analytics has developed a risk score based on behavioral attributes from credit unions' internal account data that goes well beyond loan delinquency status. Have members' payroll deposits stopped? Are they making lower payments on their credit card balances? Have they begun tapping into home equity lines of credit and credit cards that previously didn't carry balances?

"We've created a statistical algorithm that gives higher weight to

Tapping Into *Social Media Data*

Social media posts from members and competitors offer four opportunities to support marketing and member service execution, suggest Emily Engstrom and Vickie Potter of CUESolutions provider CUNA Mutual Group's AdvantEdge Analytics (*advantedgeanalytics.com*), Madison, Wisconsin:

1. Get to know your members better. People celebrate many milestones on Facebook, Instagram and other social media—college graduation, the birth of a child, engagement, plans to move and/or start house-hunting, a new job or business launch. "Those key life events can trigger personalized outreach to meet members' changing needs," Engstrom notes.

2. Gather intel on competitors. The job postings on LinkedIn by community banks and credit unions down the street—and mega-banks and fintechs across the country—may signal new initiatives if they're recruiting data scientists, business lenders or investment advisors, as just a few examples. And perusing social media marketing offers a view into their new services and target markets for specific products.

3. Assess member sentiment about the credit union's brand. This analysis should go deeper than the number of posts and likes, Engstrom suggests. "Knowing that your credit union name has been tweeted X amount of times doesn't really tell you how members and potential future members are feeling about your credit union."

She offers the example of a 2019 commercial in which a man presents his already-fit partner with an expensive exercise bike. "A lot of people were talking about that on social media. If the Peloton media people were just looking at traction that commercial got online, they'd be feeling pretty good about that—if they didn't scale the sentiment to get a deeper view of what was going on to see that many people saw that commercial as a big miss."

4. Identify service miscues and opportunities. Consumers are more likely to post or tweet when they're unhappy with an interaction than when they're satisfied with the member experience, Engstrom notes. This is partly about timing, especially for problems that occur outside regular business hours. It's also quicker to spend 30 seconds tweeting than to phone into a call center or chat online.

However members report service issues, the credit union should respond via the same channel, she recommends. "It can help you get in front of a potential problem when you reach out and fix it through a much richer experience of connecting through members' preferred mode of communication."

In addition, directing member communications based on channel preferences can have a direct bottom-line impact, Potter says. "Some marketing methods are more expensive than others. Why put your resources into a method if it's not going to reach members? A more prescriptive approach offers the right message via the right channel."

Gathering social media data can also help credit unions identify wider member service issues, she notes. AdvantEdge Analytics worked with one credit union whose social media input formed a word cloud that spelled out frustration with difficulties in making loan payments via the mobile channel.

"This was a significant issue, and the credit union was able to redirect IT staff to solve the problem as quickly as possible," Potter says. "Prospective members look at online reviews in deciding whether and where to move their accounts. If they see repeated issues with something like making mobile loan payments, they're likely to look elsewhere."

Credit unions can also download posts from social media platforms to analyze via text type searching what people like about their offerings. "You might even turn up potential strengths you weren't aware of," she suggests. "Maybe you're attracting a certain type of member who likes a specific product. You could create a campaign around that and make it an even bigger deal, and you might be able to reach out to members and ask, 'Can we use this quote in a marketing campaign?'"

> **"There's a big difference between consolidating all your data into a warehouse versus actually consuming it in a meaningful fashion."**
>
> – Elkan Wollenberg

recent events as the basis for a robust internal credit risk score," he notes. "It utilizes the credit union's view of changes in income and changes in payment behavior to present a realistic, real-time view of credit risk, which is much more relevant in the current situation."

Equipped with that information, credit unions can guide portfolio management and outreach to members who may be struggling financially to offer assistance with personal financial management and options for loan payments.

TACKLE BUSINESS CHALLENGES

Data analytics can also guide lending leaders in product development, Potter says. She offers a use case of gathering information about the credit utilization of younger members who may be in the market for lending but need to build their credit standing. By enrolling in a credit builder product, those members can then qualify not only for loans but for apartment leases and better rates on insurance coverage. That commitment to helping young people achieve their financial goals can solidify the "members-first" promise behind the credit union brand.

At TwinStar CU, "we want to get to a point where our data warehouse is self-service, so if a branch manager wants to know more information about a member we're helping, they can use a web-based interface and get the data themselves versus having to submit a ticket to IT," Wollenberg notes. "We're not at the point of self-consumption yet, but we're building it out as we develop our data governance."

TwinStar CU has adapted Tableau (*tableau.com*), a Salesforce company based in Seattle, as its primary data analytics and visualization platform, and its BI team is working with lending, finance and operations managers on how to use that tool. Marketing currently relies on an internal data analyst to generate reports.

Beyond establishing a shared compendium of data, the credit union's developing data analytics system also offers a more efficient means to crunch the numbers, Wollenberg says. One of its key successes has been in moving away from using Excel spreadsheets to manage participation loans.

With all the information required to balance these loans, accounting analysts "were pretty much overwhelming their PCs every time they would try to run something, because Excel was never designed to deal with that much data," he notes. "We were able to streamline the entire process. What used to take days now takes hours. That was a big win for us."

DIG INTO PREDICTIVE ANALYTICS

The next big data frontier for credit unions may be predictive analytics, Shah suggests. This tool can be used to create attrition models that assess the likelihood members will move their accounts to another financial institution in the near future and to suggest the "next-best product" in which members might be interested, as just two examples.

CU Rise Analytics' attrition scores are generated by a machine learning model that identifies behavioral changes such as year-over-year spending with debit and credit cards and shifts in spending patterns such as declining recurring utility payments or bill pay entries. Credit unions can use those scores to target their member retention and cross-selling strategies, Shah says.

Next-best product algorithms used to be fairly basic, he notes: If a member signs on for X, cross-sell Y. However, modeling has become more sophisticated. For example, CU Rise amasses transactional data from debit and credit card, ACH and P2P payment systems plus financial behaviors over time based on year-over-year trends in spend and deposits. That data aligns with members' life stages and their likely affinity for financial services much more closely than simply relying on their date of birth.

Changes in financial behavior signal when members move from college into their first jobs, when they marry and become parents, and when they buy their first homes, Shah says. "Credit unions can't keep track of those events on an individual member basis, but data can define those life stages" and guide credit unions' interactions and marketing offers.

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

MORE ON ANALYTICS

Moving Into Using Data to Boost Compliance? Apply the 'Snowball Method' (*cumanagement.com/1220snowball*)

Designing Member Service Strategies for the Stages of COVID-19 (*cumanagement.com/1220designing*)

Q&A: Serving the Unbanked (*cumanagement.com/1220unbanked*)

CFO Focus: Analytics Tech Lightens the Load of Morning Chores (*cumanagement.com/1120cfofocus*)

Loan Zone: Do Credit Scores Offer an Accurate Picture of Risk Today? (*cumanagement.com/1120loanzone*)

Taking the Plunge Into Analytics (*cumanagement.com/1020plunge*)

Keep Your *Outlook Bright*

MORTGAGES, MEMBERSHIP EXPANSIONS AND MERGERS ALL HELPED CREDIT UNIONS KEEP PACE IN A TOUGH YEAR.

BY ART CHAMBERLAIN

The last year has been pretty terrible all around as we've dealt with the biggest medical crisis in a century. But amidst the turmoil, shutdowns and trouble, there has been some good news. Some credit unions have managed to grow and expand.

Indeed, the credit union story of 2020 is a tale of optimism in the face of unprecedented challenges; constantly searching for a better way forward by organizations and individuals; and a resilient system that kept its focus on serving members and the communities where those members live and work.

MAKING THE MOST OF MORTGAGES

Despite the challenges, including some credit unions having staff become ill with COVID-19 and many others working from home for months, many credit unions are seeing some bright spots and a promising future. Deposits have grown, boosted by federal stimulus checks and reduced spending by members who are hunkered down and bought only the basics. The mortgage business has been strong as well, as people stuck working from home have looked for new, bigger places.

"That 1,100-square-foot condo that was fine when no one was home much of the time is too crowded when two or three people are there all day working," says CUES member Ray Lindley, COO of Elevations Credit Union (*elevationscu.com*) in Boulder, Colorado, which has 147,000 members and $2.4 billion in assets.

Lindley's also seeing people who can now work from anywhere decide that their anywhere should be a home with a few acres, not a house on a small parcel in a suburb. Elevations CU saw its mortgage business double in 2020 to more than

"I'll write a letter and say thank you for being a member and, if you like our service, tell your family and friends. That's how you grow the business, by telling people you are thankful for their business and the opportunity to serve them."

— Steve Foley

$2.8 billion, driven by home buyers and people refinancing to take advantage of lower rates.

Lindley says Elevations CU increased its loan-loss provisions in the second quarter and provided payment deferrals on some mortgages, consumer loans and its commercial portfolio. "But we've been very pleased with how the majority of those have performed," he notes. "They have come out of deferrals and come back to regular payments, so that makes us very happy. We have seen a slight uptick in losses, but nowhere near what we were thinking about and anticipating back in April and May."

When the CU saw individual and business deposits rise in April and May, Lindley says, leaders assumed the increases were driven by stimulus checks and the money would be withdrawn fairly quickly as people needed it.

"But we haven't seen the deposits from that go away, so we're still intrigued by that, actually," he says. "What we have heard as we talk to members is a couple things. They are concerned with everything going on, so they are probably being a little more cautious than they would have been in years past. Also, what we're hearing from a lot of people is that there's not as much opportunity to spend money. You can't go on vacation, and people aren't driving a lot or buying cars."

Pre-pandemic, Elevations CU had high hopes for a jump in growth. It had a deal to purchase Cache Bank & Trust in Greeley, Colorado, with $120 million in assets, becoming the first credit union in the state to purchase an entire bank. But in late January 2020, the Colorado State Banking Board rejected the deal, ruling that only a bank could purchase a bank charter.

But the CU did not stand still. It sought and received approval to expand its field of membership to include several counties around Denver and opened a mortgage office there in June.

"Mortgage is the strength of our organization," Lindley says. "We like to go into a market starting with a mortgage and then grow from there. We did that in Fort Collins just north of us, and that worked out very well."

REACHING POTENTIAL MEMBERS

There are two basic approaches to adding members and business: organic, through marketing and word-of-mouth that attracts new members, and nonorganic, through credit union mergers or acquisition of bank branches, or in some cases an entire bank. Expanding your field of membership can open the door to organic growth you couldn't pursue otherwise, but it can be tricky to carry out with a lot of rules and regulations to consider.

Steve Foley, has been president/CEO of Bragg Mutual Federal Credit Union (*braggmutualfcu.org*) in Fayetteville, North Carolina, for almost three years. During that period, membership has stayed steady at about 9,900, but assets have grown from $55 million to about $90 million through a strategy that has focused on personal customer service and approaching potential members in membership groups that had been ignored.

For example, Bragg Mutual FCU expects to open a branch in a regional hospital early in 2021. Pandemic-caused construction delays pushed that date back by almost a year. Foley says the branch will open the door to about 6,000 potential members who could have joined in the past, but there was no branch near them and no real outreach by the credit union.

"We are opening there to provide greater exposure to our credit union," he says. "This location will allow us to strengthen our presence with the medical community."

Bragg Mutual FCU was founded in 1952 as a credit union for civilians working on the Fort Bragg military base, but it was relocated off the base a few years later after a credit union was started to serve the members of the military on the base. Last May, the credit union received approval to expand its field of membership into Harnett County north of the base, a largely rural area that the credit union successfully argued was underserved.

Foley notes that the National Credit Union Administration insists credit unions have a viable marketing plan before granting a new area of service. Getting an expanded field of membership is "like the dog chasing a car," he says. "What are you going to do when you get it? We felt, 'OK, we've got this new area. How are we going to get the word out?' And we're really surprised that we are getting quite a few members by doing word-of-mouth."

Each new member hears directly from Foley. "I'll write a letter and say thank you for being a member and, if you like our service, tell your family and friends. That's how you grow the business, by telling people you are thankful for their business and the opportunity to serve them."

In 2021, Foley hopes to roll out a mortgage product that can help his lower-income members get into homes. "We are trying to develop products to improve their lives. Some members have been renting the same property for 30 to 40 years. We want to help them become owners."

Foley worked with consulting firm CUCollaborate (*cucollaborate.com*) to identify the underserved areas it could move into to expand its fields of membership and explain to NCUA how the CU could meet their needs.

Sam Brownell, CEO/founder of CUCollaborate, Washington, D.C., urges smaller CUs to consider expanding their fields of membership by focusing on underserved and lower-income areas.

While the effort can bear fruit, credit unions need to know that "underserved area expansions are trickier than community expansions because there is more research to do and it is not so straightforward," Brownell says.

One requirement is that the credit union be able to address a "significant unmet need" in the area. He says, "a lot of people struggle to figure out how to come up with something for that."

He says many credit unions are reluctant to serve lower-income areas because they don't have the expertise to lend there successfully. Some have received the low-income designation from NCUA but "didn't want to be known as that."

Brownell also says many credit unions scare away potential members with their online account-opening procedures.

"Credit unions lead with the very first question, which is the one that makes people abandon the process: Tell us how you are eligible to join our credit union," he explains. "Forty percent of people don't think they are eligible to join a credit union."

His recommendation is not to ask about eligibility but to get basic information such as an address and employment information, which often will let a computer algorithm determine right away that the person meets your requirements.

"Ask for as little of them and their time as possible and put it on your team and your staff, even if that is unpleasant and creates a lot more work," Brownell advises. "But you'll get more new members and loans and business if you do."

Card Use Data, *Opportunities*

Dean Michaels, chief strategy officer at CUES Supplier member CO-OP Financial Services (*co-opfs.org*), Rancho Cucamonga, California, has a unique perspective on the credit union landscape as he watches payment processing data.

"When COVID first hit, all volumes went down across the board, but debit card volume held up pretty well," Michaels says. "People were shifting to what you usually use your debit card for—buying necessities. People weren't putting big vacations on their credit cards, weren't buying luxury items, so we saw all volumes really drop. Credit card volume, in particular, took a heavy hit."

In the fall, credit card spending rose while debit flattened, year-over-year. One tough development for CUs was the shift in spending toward groceries and necessities that pay lower interchange fees. Michaels says the current economic conditions offer credit unions an opportunity to step up.

"If you ask executives today, 'What do you wish you had done differently during the financial turmoil in 2008?' nine out of 10 will say, 'I wish I was more aggressive,'" Michaels says. He urges credit unions, instead of being conservative and looking inward, to focus on what they can do to help their members, such as offering deferred payments.

"Lean forward with your members. This is the time when they need help," he says. "Things you do today will be remembered for a long time."

ADDING MEMBERS THROUGH AN ACQUISITION

Justin Gingerich, an attorney with Howard & Howard Attorneys PLLC in Chicago (*howardandhoward.com/locations/chicago*) and co-leader of its credit union industry group, advises credit unions on the acquisition of banks and bank branches. He notes that the first-ever acquisition of a full bank by a credit union took place in 2012. Over the next three years, there were one or two deals a year. From 2016 to 2019, credit union acquisitions picked up in several states as people came to understand the business and regulatory issues involved and felt comfortable moving ahead.

Even with the pandemic, five or six branch acquisitions proceeded in 2020, and he expects the next few years may see a wave of activity.

"You are seeing a unique convergence of desire, where banks are looking to cut footprints and credit unions are looking to acquire the asset and use it as an opportunity for nonorganic growth," Gingerich says. "The competing agendas meet in the middle, and both sides are winning. I think in 2021 you are going to see opportunities pick up in general as we pull out of the pandemic, both in whole bank acquisition and branch acquisitions."

A key benefit for credit unions that acquire bank customers is that they immediately get hundreds of new members and more than 95% of them stick around.

"It's an opportunity to send out mass communication to people who are all going to be in the same boat," Gingerich says. "Their institution is going to be no longer, or the particular bank branch they were a part of is going to be part of the credit union network. Instead of pitching why they should come to you, you're just saying: 'You don't need to go through the hassle of finding a bank. You're going to be a member. We're going to value you.'"

Given the cost and uncertainty around loan quality and write-offs for the next year, he predicts that many credit unions may avoid costly full-bank acquisitions, but branch acquisitions will pick up.

Credit unions in Canada have been going through a similar process. Deposits are up, mortgage business has been strong, and some credit unions have continued to do deals.

Despite the turmoil of the past year, Alterna Savings and Credit Union Ltd. (*alterna.ca*), based in Ottawa, which has more than 183,000 members and $6.6 billion in assets, continued its practice of growing by bringing smaller credit unions into the fold. Since CUES member Rob Paterson became president/CEO seven years ago, the credit union had acquired five smaller credit unions. Then in 2020, it added two more. Some, such as Peterborough Community, have kept their own branding, while others have decided to make the switch to do business under the Alterna Savings and CU name. Paterson says the decision is left up to the members and staff of the new partner.

After considering a postponement, Alterna Savings and CU went ahead in May with a merger with Quinte First Credit Union, adding

14,000 members and $230 million in assets. At the end of 2020, the CU added Member Savings Credit Union, which brought 3,400 members and $119 million in assets.

Paterson says smaller credit unions that join Alterna Savings and CU get access to better digital services and back-office operations. But the real enhancement is a strong treasury department that lets the credit unions offer their members better rates. Being part of a larger organization also means they can handle bigger mortgages and commercial loans without having to worry about having the deposits to back them up.

Paterson also pursues organic growth, making regular phone calls to members just to chat and encourage them to use more of Alterna Savings and CU's services. Like many credit unions, it finds members often turn to a larger bank to handle their wealth management, a valuable area that the CU wants to capture. Pleased with its service during the pandemic, many members have been making that shift, Paterson says.

"I think that we always talk about the credit union system and how we're different, but I think it took this crisis to solidify that we're different, in our members' minds," Paterson says. "We've lived up to the ethos of what it means to be a cooperative financial institution."

He says members appreciated the fact the credit union was able to be "very active in our preparedness for the pandemic and to be professional as a financial institution, but then to be personal and empathetic connecting with our members through all the different channels. We're being a partner, being what we're supposed to be in the community."

Alterna Savings and CU has offices and branches across a wide swath of Ontario and had been using Zoom for internal meetings for several years. Last spring, it quickly pivoted to using the online service with members for meetings on wealth management or home purchases.

Jim Burson, managing director in the channels practice for CUES Supplier member and strategic partner Cornerstone Advisors (*crnrstone.com*), Scottsdale, Arizona, expects credit unions will pursue mergers and bank-branch acquisitions this year. They will also be taking a closer look at the changes in fields of membership requirements that allow for more growth and realize "these rules give us a new playing field and there are things we can do differently."

Art Chamberlain *is a writer based in Campbellford, Ontario, with almost 15 years of experience working with and writing about credit unions.*

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3 New Reasons to *Adjust Executive Retirement Plans*

WHY AND HOW YOU MAY NEED TO ADJUST SERPs BECAUSE OF COVID-19, EXCESS LIQUIDITY AND THE EXCISE TAX

BY JOHN PESH

When my colleagues at CUNA Mutual Group and I write articles about how and why credit unions should create supplemental executive retirement plans, our closing message is often this: Once you've created a SERP, it's important to regularly review the plan's progress.

This time, I'm starting with that message. And to show you why we say it so often, I'll relate some key things we discover during SERP reviews that prompt credit unions to make adjustments that can improve SERP outcomes—for the executives and for the credit unions' bottom lines.

The mix of products used to supplement executive retirement income most often includes 457(b) and 457(f) plans, and split-dollar life insurance agreements. (For more about these, see the sidebar "A Basic Overview: The Three Main SERP Engines.")

To fund the CU's contributions to SERPs, boards are allowed by National Credit Union Administration rules to use certain investments that otherwise aren't allowed, such as equities, corporate bonds and insurance products.

Using these less-familiar instruments is one of the reasons it's smart for boards and executives to keep a close eye on SERP performance.

Auditors and examiners often look for you to document some extra oversight of these investments. And in recent years, we've come across a few more reasons to review and adjust some SERP products. This article will examine three key developments that have caused a significant number of credit unions to adjust course.

1. COVID-19

Adjusting SERPs hasn't been high on the priority list for credit union executives and boards as they've dealt with the pandemic's immediate challenges. As the crisis passes, however, it will certainly leave behind changes in credit union C-suites that will require a thorough review of executive retirement plans.

For example, COVID-19 has prompted some executives to delay or hasten their retirement. Other executives may have performed so well in responding to the pandemic that credit union

boards wish to reward them now, to keep them from being poached by competitors.

The more far-reaching effect of COVID-19 on SERPs, however, is likely to be the 2020 economic downturn that some economists warn may become a double-dip recession in 2021.

Any significant economic downturn will affect some underlying investments included in SERP arrangements. A well-designed SERP takes this into account. Here's a typical scenario:

A CU gives its CEO a 457(f) plan that vests in 10 years, with a target payout of $200,000. The plan is funded by a managed portfolio that includes equities and other market-based investments. A recession at the five-year mark causes the portfolio to underperform, and the projected payout for the 457(f) at the 10-year vesting date drops to $150,000. In addition to adjusting the portfolio's investment mix, the CU typically has several other options:

Add more money to the portfolio funding the 457 (f). This option is simple: The credit union contributes more to purchase additional investments and increase the potential yield.

Supplement the 457(f) with a 457(b). This is one reason a 457(b) is often a good benefit to complement a 457(f). It provides an additional savings vehicle for executives with easily trackable results.

However, keep in mind that a 457(b) is not usually an adequate replacement, which is why it's often used as an addition to an executive compensation program, rather than a primary component. For starters, the credit union's annual contribution to this type of account is capped (the limit is $19,500 for 2021).

A 457(b) also does not have the retention power of a 457(f), which the IRS requires to include a "substantial risk of forfeiture." In plain English, this most often means that executives are required to remain employed with the credit union until the agreed-upon vesting dates (or a series of vesting dates). Because a 457(b) is always fully vested, it provides less incentive for executives to stay put.

Restructure the plan to be "defined benefit," ensuring it provides the target benefit. SERPs can be designed as defined-benefit rather than defined-contribution programs. Many credit unions have shied away from this structure because it places the risk of investment performance on the credit union.

A Basic Overview: *The Three Main SERP Engines*

Supplemental executive retirement plans can be powerful incentives for attracting and retaining the best executive talent for credit unions. These plans provide income beyond what regulatory restrictions allow a 401(k), pension and Social Security to generate. Here's a brief overview of the three engines that most commonly power SERPs.

457(B) PLANS

This is a defined contribution plan reserved for the highly compensated employees in management. It has annual contribution limits ($19,500 in 2021). A 457(b) basically augments a 401(k) plan to generate more retirement income. Like a 401(k) plan, contributions are made pre-income tax, and earnings grow tax-deferred until they're withdrawn. Unlike a 401(k) plan, however, the employer owns the assets until the executive withdraws them.

The participant and/or the employer can contribute to a 457(b) plan, up to the annual limit. These plans are common first steps in supplementing an executive benefits package. They're simpler to set up and administer than 457(f) plans.

457(F) PLANS

In contrast to 457(b), a 457(f) plan can be designed as a defined contribution or a defined benefit plan. The 457(f) plan also has no inherent contribution limits, so it offers more flexibility to design a program tailored to an executive's needs. However, currently only the credit union, not executives, can contribute to the plan.

To execute a 457(f) plan, the credit union and executive enter into a written agreement, stipulating specific compensation that's typically tied to employment over a period of time. For example, the offer to the executive might be summarized as: If you stick around for the next five years, the credit union will pay you $100,000. In effect, the credit union issues an exclusive IOU that shows up as a liability on its books, recorded over time, as an annual expense of $20,000 for five years. When the vesting date arrives, the payout is made and the IOU is complete.

Money allocated for a 457(f) plan must be subject to a "substantial risk of forfeiture." In other words, the money won't be taxed as income for the executive as long as the executive is prevented from receiving the money until that person meets certain requirements spelled out in the plan (typically, remaining with the credit union for a specified period).

COLLATERAL ASSIGNMENT SPLIT-DOLLAR LIFE INSURANCE

"Split-dollar" refers to the concept of sharing the costs and benefits of a life insurance policy—including the premium payments, cash values and/or death benefits—among multiple parties. The most common type of split-dollar plan used by credit unions is the collateral assignment split-dollar (CASD), also referred to as loan-regime split-dollar.

In the CASD design, the executive owns the policy. The credit union makes an advance (or loan) to the executive to pay the policy premiums. The executive, in turn, assigns the policy back to the credit union as collateral for the loan.

The policy's cash value grows tax-deferred. The goal is for the cash value to increase so the executive can eventually tap that money for retirement income. These plans can include vesting requirements for retention or performance goals based on the credit union's strategic needs.

In a typical CASD arrangement, when the executive dies, part of the policy's death benefits are used to repay the loan, with interest, to the credit union. The remaining death benefits go to the executive's beneficiaries.

In our example above, the investment portfolio could certainly be adjusted to maximize its ability to recover from the market slump over the following five years—and it's not unusual to accomplish this, as steady recoveries often follow downturns. But if that doesn't happen and the resultant performance is, for instance, $175,000 of investment gains, the credit union would need to pony up the additional $25,000 to provide the promised $200,000 payout.

Allow the payout to remain below its target benefit. The credit union can take action to try to improve the investment portfolio's net performance, such as by adding invested dollars or changing investments. But if the portfolio doesn't perform, the executive gets whatever the portfolio ends with.

For example, if the resulting net performance is $175,000 of investment gains, the executive would receive $175,000 only, and the credit union would not need to commit further capital. While this is certainly a realistic option, if the size of the benefit is significantly different from what was intended, it may not be the most motivating for executives.

Replace the 457(f) with a split-dollar life insurance agreement. Depending on your executive's age, tenure, insurability and other factors, this may be a good option because the life insurance products used in these plans are generally less volatile sources of long-term income than equity-based portfolios.

2. EXCESS LIQUIDITY

Excess liquidity is another driving factor when credit unions turn to split-dollar arrangements, both for converting 457(f) plans and for new SERPs.

Through October 2020, credit union surplus funds had reached a record high of $591 billion. And the industry's liquidity position is expected to continue increasing in 2021, according to the December 2020 Credit Union Trends Report from CUNA Mutual Group.

While excess liquidity can be used to fund any type of SERP, using a "loan-regime" split-dollar insurance arrangement actually adds a loan to a credit union's books.

The credit union loans the executive the amount needed to pay the premium on a life insurance policy, which is then provided as collateral to secure the loan. Generally, the loan is repaid out of the proceeds of the insurance policy's death benefit. Ordinarily, the executive uses the policy cash values for supplemental retirement income.

Before you decide to employ a split-dollar life insurance program, consider these two caveats:

- Although the cash value growth of a whole life insurance policy isn't directly tied to stock market results, it may be loosely tied to the performance of stock indices (indexed life insurance). The growth may also be tied to the insurance company's ability to generate dividends (whole life insurance), depending on the type of insurance product used.

  If an indexed product *is* used, make sure you fully understand the product. If a whole life product is used, make sure the insurance carrier has a history of consistently strong dividend payouts. Additionally, regardless of product type, the credit risk the credit union is assuming is with the insurance company. Look for a track record of high ratings for stability and management from AM Best, Standard & Poor, etc.

- Split-dollar arrangements can take several months to implement. It takes time for underwriting to determine the premium you'll be charged, and after that, writing the agreement can be complicated. The credit union and the executive should have legal counsel—with experience in split-dollar agreements—participate in drafting and executing these agreements.

3. THE EXCISE TAX

The Tax Reform and Jobs Act of 2017 included a 21% excise tax that credit unions must pay on annual executive compensation in excess of $1 million to any one of the credit union's top-five paid executives.

SERP payouts can push some executives' annual compensation above (or further above) the $1 million threshold and trigger or increase the tax.

Some credit unions got hit with that tax in 2018 because the excise tax was added to the legislation just before it passed near the end of 2017—in some cases, there wasn't time to find and implement suitable SERP adjustments to avoid the excise tax for 2018 SERP payouts.

When a SERP contributes to the excise tax, it's usually because of a 457(f) plan payout. But deferrals into the other 457 plan commonly used in SERPs, the 457(b), also appear to be subject to the excise tax (IRS Notice 2019-9).

As for split-dollar life insurance policies, executives generally don't have to pay income tax on withdrawals from the policies' cash value, so that income isn't subject to any excise tax charged to the credit union.

Even with 457(f) plans, however, credit unions have been able to minimize their exposure to the excise tax by following any or all of these three steps:

Step 1. Eliminate surprises: Review 457(f) vesting dates and payout amounts.

Keep in mind that 457(f) plans aren't all set up the same. Some plans have multiple vesting dates at multi-year intervals, and others have just one vesting date. Some plans have specific payout amounts, and others pay out whatever the underlying investments generate over a given time.

Scheduling these reviews has proved critical for credit union executives, because often they won't otherwise bring attention to their own retirement/retention benefits.

Look for payouts that would trigger a significant excise tax where otherwise your executive compensation would be subject to little or no excise tax.

Step 2. Restructure 457(f) plans if you can gain an excise tax advantage.

You may be able to reduce an executive's recognized income from a 457(f) plan in a given year by adding more vesting intervals. For example, instead of two planned payouts of $50,000, six years apart, shift the plan to four vesting dates three years apart, with payouts of $25,000 each.

As I mentioned above, you may also be able to supplement or replace, in whole or in part, a 457(f) plan with a split-dollar life insurance agreement.

Always work with legal counsel experienced in SERPs to make this type of change.

Step 3. Amortize the cost of the tax.

If your best course of action will still result in future excise taxes, work with an accountant to minimize the impact of the tax on your income statement in any single year by accruing the expense to spread it over multiple years.

One last note about the excise tax: Remember that once an employee is considered a "covered employee" for purposes of the excise tax, that person is always a covered employee. This means that an individual who becomes one of the five highest-paid because of a SERP payout remains in the group of employees the credit union must monitor for purposes of the excise tax—even if that person isn't among the five highest paid in subsequent years.

DON'T WAIT FOR EXECS TO ASK

I began this article with the advice I usually save for the end, but it's so important that I'll repeat here anyway. None of the adjustments I've described can be possible without regularly reviewing SERP progress with your SERP providers, along with any necessary counsel from an attorney, accountant or investment portfolio manager.

Scheduling these reviews has proved critical for credit union executives, because often they won't otherwise bring attention to their own retirement/retention benefits. Don't let that impulse stop you from getting the most out of your investment in your best talent.

John Pesh *is a director of executive benefits for CUESolutions provider CUNA Mutual Group* (cunamutual.com)*, Madison, Wisconsin.*

MORE ON EXECUTIVE COMPENSATION

Four Reasons to Reassess Supplemental Executive Benefits Now (*cumanagement.com/0920fourreasons*)

Two Different Benefits Pre-Funding Programs That Work Well Together (*cumanagement.com/0820prefunding*)

Three Common Misconceptions About Benefits Pre-Funding Investments (*cumanagement.com/0520three*)

Commit to a Long-Term Plan for Excess Liquidity (*cumanagement.com/1120commit*)

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

Compassionate *Efficiency*

TODAY'S COLLECTIONS MUST BE AN EFFECTIVE BUSINESS PROCESS AND AN EXERCISE IN HUMANITY.

BY RICHARD H. GAMBLE

Grasping the dimensions of COVID-19's impact on loans and fashioning a realistic response is a challenge for credit unions.

"We reassess every month," says CUES member Meredith Ritter, CFO of $280 million Tucoemas Federal Credit Union (*tucoemas.org*), Visalia, California. "We think more losses are coming. We beef up our loan-loss reserve as regulations permit. Is that enough? I don't think anybody really knows."

CUs are practiced at helping members deal with adversity, but COVID-19's emotional and financial fallout is escalating the risks and opportunities related to collections, as Ritter knows well.

"We serve a low-income population that is very vulnerable financially," she observes. "Many of them don't have savings. We had to scramble to keep them in their cars, which often were critical to their staying employed or finding employment."

Hardship may be easier when it's shared. Members are responding better to collection messages now, she reports. "They seem to feel less shame about missing payments—like it's a global crisis and not so much their fault." So the team at Tucoemas FCU gives members time and advice. When a loan is modified, the borrower also must get financial counseling from Balance (*balancepro.org*). "We make sure they talk to someone," Ritter says.

Ritter and the CU's lending and collections staff are in the thick of trying to help desperately needy members and preserve sound business practices. She can't stop thinking about one woman who was laid off, struggled for a while, eventually found another job, and then "the unimaginable happened. Her home was destroyed by a fire that killed her child. She has so much to cope with, and we're trying to find ways to help with the financial challenges."

Credit unions everywhere are dealing with people who have never been late before. $400 million Central Willamette Credit Union (*centralwcu.org*) in Albany, Oregon, is seeing late payers thrown by COVID-19 layoffs and furloughs into unfamiliar territory, reports Heather Rush, member solutions manager.

"They've never encountered the situation," she says. "They're reaching out to us, apologetically, not sure what to do, unaware of the many assistance programs Central Willamette has to help our members through the COVID-19 pandemic as well as the wildfires."

So CUs are taking more time to listen. Art Sookazian is a big automation booster, but the VP/collections/risk management at $1.1 billion Los Angeles Federal

Credit Union (*lafcu.org*), says automation has its limits, that there will always be a need for person-to-person conversations and manual calling is up at highly automated LAFCU.

"People want to talk about how they are coping, and so we're taking more time to listen and engage," he notes. "They want stability, and we want to be a stabilizing agent."

A result is that time per call is up, from three minutes to six. In good times, that would signal a drop in efficiency, but these aren't good times, Sookazian concedes. "We've loosened our performance metrics for staff to encourage them to spend time listening."

CU collectors need to play the short game to get some payments restarted and also the long game to get the member back on track financially, observes Jacob Corlyon, CEO of Capital Collection Management (*capitalcollect.com*), Syracuse, New York.

PROACTIVE CALLING

When the first wave of the virus last spring caused a surge in furloughs and layoffs, CUs responded quickly with forbearance. $1 billion One Nevada Credit Union (*onenevada.org*), Las Vegas, sprang into action, proactively calling more than 40,000 of its 74,000-plus members to ask how they were doing and how the CU could help them, reports Tom Ernsperger, EVP/chief lending officer, who's in charge of the loan administration department. Front-line workers from the branches and call center made most of the calls, "tens of thousands of them, usually before members started calling us," he explains.

Then One Nevada CU offered borrowers 90-day extensions, and more than 2,400 members said yes, he reports. The CU also gave them a 30-day skip-a-pay option, which more than 2,000 members used, sometimes for three consecutive skipped payments or 90 days. Now those programs have timed out, and the CU is working with a much smaller number of borrowers—about 100—who need permanent loan modifications, Ernsperger says. When the 90-day extensions expired, "we saw a slight uptick in early delinquencies."

In California, Tucoemas FCU quickly offered borrowers a two-month skip-payment option, Ritter reports. The CU didn't set qualification criteria but advised members not to take the skips unless they needed to because there could be some downside. But many needed it or thought they did. People in Tulare County, an area with persistent poverty, struggle to get by in the best of times, she reports. As it turned out, some of those borrowers didn't need the skip because enriched unemployment benefits and $1,200 mitigation payments kicked in. Delinquencies went down. Loans were paid off or balances reduced, Ritter recounts.

Then the federal benefits ran out, and the CU had to offer another round of two skips in late summer. A member could elect a two-skip option once in 2020, Ritter explains. After a two-skip, a non-performing loan goes into a collections queue, and some eventually go into a modification queue, perhaps allowing a member to make smaller payments for six months to give them time to find a new job, she says.

LAFCU members were able to skip payments 6,000 times from March through September under a program tied to COVID-19, Sookazian notes. After the skips, the loans went back to performing status 98% of the time, he adds.

"The vast majority stayed current or resumed payments after the skip," Sookazian says. "Out of thousands of loans that skipped payments, we're down to about 100 loans that are treading in and out of delinquency."

Central Willamette CU responded to the COVID-19 crisis with programs tailored to meet the particular needs of stressed borrowers, Rush reports. Some qualified for skipped payments, others for interest-only payments. Other loans were modified to fit the circumstances. All of these programs were still available in December, but the CU's exposure is hardly open-ended.

"These were always meant to be hardship accommodations," Rush points out. "We asked about employment status and the member's particular situation. We try to get the full picture of what is happening in our members' lives so we know how best to proceed."

With a variety of loans that are not fully performing but not classified as delinquent, how does Central Willamette CU know how bad future delinquencies will be?

"We know our members and our market very well," Rush says. "We keep our eyes and ears open so we are aware when employers are bringing people back. We make every effort to know which members are receiving unemployment benefits and when those benefits might expire. We know their transaction activity, we watch their account balances and loan balances."

ENDING FORBEARANCE

Forbearance has to be temporary, leaving some CUs to navigate an exit strategy. It's time to take a people-first approach to collections and to avoid threats or recrimination, Corlyon says.

"Engage in an empathetic manner, building rapport and educating the member on the account and their options to get it back on track. You should also inform members of the remedies the credit union will take if nothing is worked out and how that could impact them. Unpacking those forbearance programs has to be done carefully," he explains. "Delivering the facts in a way that is productive so that they are not taken as a threat is the key to continued member satisfaction. When utilizing this properly, the credit union collector is a lifeline rather than the bad guy."

CUs are being patient, but at some point, collections will gear up, agrees Wendy Elieff, SVP/client service and marketing at CU Recovery Inc. (*curecovery.com*), a company of CUESolutions Silver provider PSCU, St. Petersburg, Florida. CUs are ramping up staff

"We reassess every month. We think more losses are coming. We beef up our loan-loss reserve as regulations permit. Is that enough? I don't think anybody really knows."

— Meredith Ritter

> "People want to talk about how they are coping, and so we're taking more time to listen and engage."
>
> — Art Sookazian

training and negotiating with potential partners that could help them handle a surge, she reports.

With permanent loan modifications, the conversation turns to assets that could be monetized. The most obvious and convenient one, Ernsperger points out, is equity in a mortgage. It helps that property values have increased in Las Vegas and elsewhere and that mortgage interest rates are scraping all-time bottoms. Business is booming in residential home mortgages, he notes, and more than 80% of the transactions are refinancings.

"Some members are cashing out, and some are looking to lower their payments. It's a win-win situation for everyone," he declares.

LAFCU is ready to encourage delinquent borrowers to look at assets they could monetize.

"We think it's fine to tap available equity for emergencies," Sookazian says. "We understand there is scar tissue from the 2007 recession when people had been using their home equity as an ATM, but people need to understand the consequences of letting a loan deteriorate. If you can tap equity to escape those woes, it might be a good move. Home refinancing is definitely attractive. We often turn a collection call into a loan application situation."

HIGH-TECH EFFICIENCY

While COVID-19 has required more person-to-person collections conversations, it also has rewarded automation, high-function digital channels and the use of text messages at LAFCU.

"Three or four years ago, we started pushing messages out to past-due members through automated channels," Sookazian reports, "and found that 64% of them were 'opened.' The loans came back to current status quicker than if we waited for them to contact us.

"We have been fortunate to have a high degree of automation, which gives us better access to information and more time to address problems strategically," says Sookazian, who is also president and founder of the National Credit Union Collections Alliance (*ncuca.com*). "It's been my goal to keep chipping away at manual processes."

Efficiency and member satisfaction are pushing collections into digital channels, according to Robert Fite, VP/business development and marketing with Telrock Systems Inc. (*telrock.com*), a cloud-based collections software provider. Borrowers want to deal with collection messages when they are ready, he says, through their preferred channel of communication, which is increasingly text messaging. And they will want to be directed to self-service payment portals where they can choose their own repayment plans without giving explanations to an agent. Today's best portals can provide all of the options that a human collector can offer and do it 24/7/365, he notes.

Having all these options will be particularly important in 2021. CUs have had months to prepare for a likely spike in collection activity. "We've all been expecting it," reports Jeff Mortenson, VP/client relations in the financial institution group at CUES Supplier member SWBC (*swbc.com*), San Antonio, "but it's been slow to develop, due to lender forbearance and government mitigation programs."

When relief programs end, collections work will likely soar, Fite predicts, hurting CUs with outdated systems that can't support rising volumes well.

Central Willamette FCU is introducing text messages to the collection message cycle, Rush reports. "We continue to send out notice letters at 11 and 15 days and have added a letter at 20 days. We've also started sending trial text messages, using Eltropy (*eltropy.com*), at 25 days for those who have not responded to the letters. We're trying to head off what could happen at 30 days," she explains. The message invites them to click on a link to make a payment or contact the CU for more information.

The text link takes them to the CU's online banking. "We expect members who didn't respond to the letters will feel more comfortable responding to the text," Rush says. "Consumers want to communicate and do business digitally."

While the jury is still out as far as statistical proof of preferences, Mortenson and many others expect text to become the favored channel.

"People like texting," he notes. "They prefer it to email and phone calls for personal interactions. They use it for other banking activity. It's definitely something most people under 50 are comfortable with, and it's growing among those over 50."

Richard H. Gamble *writes from Grand Junction, Colorado.*

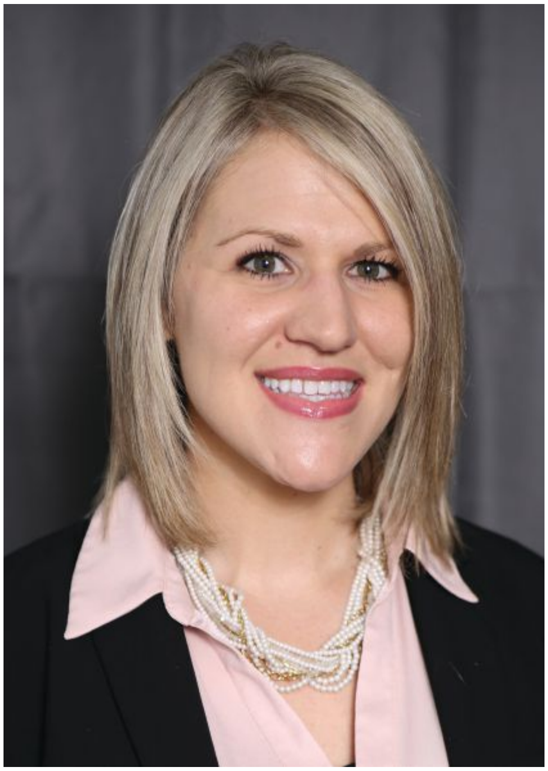
MORE ON COLLECTIONS

How Credit Unions Can Be Even More Empathetic and Effective in Their Collections (*cumanagement.com/podcast104*)

Finding the Right Collections Temperature (*cumanagement.com/0220collections*)

Collections During COVID-19 (*cumanagement.com/0920collections*)

Contributing *to the Mission*



LINDSEY WALKER'S ROLE IN FURTHERING HISPANIC OUTREACH EARNS HER THE TITLE OF 2020 CUES EMERGING LEADER.

BY DIANE FRANKLIN

Lindsey Walker, CCM, executive assistant with $364 million Tampa Bay Federal Credit Union (*tampabayfederal.com*), was exactly the type of future credit union leader for whom the CUES Emerge program (*cuesemerge.com*) was developed. Never one to pass up an opportunity to learn, Walker applied and was accepted into the 2020 CUES Emerge cohort, where she found great value in the program's unique combination of online education, peer collaboration and a competition phase that culminated in an online pitch show on Sept. 16. As one of five Finalists, Walker presented a business case detailing her credit union's Hispanic outreach program, and on the strength of that presentation, she earned the title of 2020 CUES® Emerging Leader.

"Being named the CUES Emerging Leader was a huge honor," says Walker, a CUES member. "It's like a badge that demonstrates the crucible of personal development that all new leaders have to go through as they begin their journey. It goes far beyond titles, degrees, certificates and accolades. It's seeing an opportunity to lend a hand, to learn and to grow on behalf of a mission that's bigger than oneself."

CUES and CUES Premier Supplier member Currency (*currencymarketing.ca*) launched CUES Emerge in 2020 to build on the legacy of the Next Top Credit Union Executive competition, continuing CUES' commitment to educating and developing future leaders.

"I can't say enough good things about the program," Walker says. "I truly believe that all of us who participated walked away as better leaders."

EXPANDING HER ROLE

In her three years at Tampa Bay FCU, Walker has expanded the role of executive assistant into something beyond what the title might suggest. "I've been given the opportunity to lead several special projects," she reports. "If there's anything out of the norm that needs to be done, I'm kind of like the Swiss Army knife."

Walker is grateful that CUES member Richard Grammatica, CCE, Tampa Bay FCU's president/CEO, selected her to lead the organization's Hispanic outreach initiative, which was designed to reduce linguistic barriers and support the region's growing Hispanic population.

"In the Tampa Bay area alone, there's been a 200% increase in Hispanic migration from Spanish-speaking countries over the last two decades," Walker says. "When I arrived at Tampa Bay Federal Credit Union, Rick shared with me his desire to expand the program, so I quickly began researching ways we could help the Hispanic community."

One of Walker's first steps was to go through a process to obtain a designation for Tampa FCU called Juntos Avanzamos (*juntosavanzamos.org*)—"Together, We Advance." The designation identifies credit unions that have committed to serving and empowering Hispanic communities. Tampa Bay FCU has demonstrated this commitment in a number of ways, including employing a frontline staff that is 74% bilingual, strategically locating most of its five physical branches in predominantly Hispanic areas and offering Spanish-language financial literacy classes.

To overcome a lack of funding for some aspects of the program, Walker took the proactive step of becoming a certified grant writer to pursue grant opportunities for underserved communities through the National Credit Union Administration (*ncua.gov*). "We were able to get $56,000 in grant funding, which allowed us to move the project forward and produce membership applications, loan documents, marketing collateral and a version of our website (*tampabayfederal.com/pagina-de-inicio*)—all translated into Spanish," Walker says.

Tampa Bay FCU has a membership of nearly 33,000. Of that membership, 8,700—26%—are Hispanic. By providing Spanish-language materials, the CU anticipates growing its Hispanic membership by 1% annually over the next five years and deploying $6.4 million in loans during that same time period.

"The feedback we received from our Hispanic membership has been overwhelmingly positive," Walker reports. "Previously, members were bringing a family member or friend into a branch to translate important financial documents. Now they can read them on their own."

Grammatica applauds Walker's leadership, tenacity and focus in helping Tampa FCU obtain the grant funding. "Lindsey immersed herself in the project and led a cross-functional team of her peers," he says. "Our successful program is a direct result of Lindsey's dedication, determination and leadership."

LEAP OF FAITH

A native of Charleston, South Carolina, Walker has always had a strong interest in education. She earned a bachelor's degree in business management and an MBA from Southern Wesleyan University (*swu.edu*). She also obtained her Project Management Professional certification (*tinyurl.com/pmi-pmpcert*) and, in conjunction with the CUES Emerge Program, the Certified Credit Union Manager designation.

Throughout her college years, Walker worked full-time in various corporate jobs, most notably in the HR department of a major retailer. In 2014, she took what she describes as a "leap of faith" by leaving Charleston to take a job as senior executive administrator for $1.4 billion Florida Credit Union (*flcu.org*) in Gainesville.

"To say that the organization has had a major impact on my life—both professionally and personally—is an understatement," Walker reports. "I was surrounded by well-educated individuals who held themselves to a very high standard and exuded excellence."

Walker is particularly grateful for the support of her then-boss, CEO and CUES member Mark Starr, CCE, who became a mentor to her. "Mark complimented my technical skills and offered encouraging words about my potential, which greatly inspired me," she says.

Walker stayed at Florida CU for over three years, taking on increasingly important roles for

> **"[CUES Emerge is about] seeing an opportunity to lend a hand, to learn and to grow on behalf of a mission that's bigger than oneself."**
>
> – Lindsey Walker, CCM

major project initiatives. "I had every intention of staying there longer, but life had other plans," Walker reports. "I met my husband (Nolan), who is also in the credit union industry, and we moved to Tampa together to further his career and to join our lives together as husband and wife."

At Tampa Bay FCU, Walker found another encouraging mentor in Grammatica. "I've been so fortunate that Rick has supported my quest to learn and do more," Walker says. "I'm thankful to have a boss who appreciates and allows me to develop my skills."

With Grammatica's blessing, Walker applied for the inaugural CUES Emerge program. "When Lindsey approached me about participating in the CUES Emerge program, I wasn't surprised," says Grammatica. "Lindsey is passionate about learning and leadership self-development, and the CUES Emerge program aligns perfectly with her ambition to develop into a credit union industry leader."

At 35, Walker has yet to zero in on a definitive career path and is keeping her future prospects wide open. As the winner of the CUES Emerge competition, she'll have many opportunities to continue her professional development. Her prizes include an educational package from CUES along with an all-expenses-paid trip to CEO/Executive Team Network™ (*cues.org/cnet*), scheduled for May 16-18 in Austin, Texas. Walker also received a career coaching package from CUES Supplier member Envision Excellence (*envisionexcellence.net*).

"I'm a scholar at heart, so I'm excited about this educational package," Walker says. "I think it will have a lasting impact on my career and will help me bridge the gap from good to great."

Based in Missouri, **Diane Franklin** *is a longtime contributor to* Credit Union Management *magazine.*

MORE ON EMERGING LEADERS

CUES Emerge applications due Feb. 10 (*cuesemerge.com*)

First-Ever CUES Emerging Leader Helps Reduce Linguistic Barriers to Support Hispanic Members (*cumanagement.com/podcast102*)

Lending a Helping Hand With the Next Top Credit Union Exec (*cumanagement.com/0219lending*)

2018 CUES Next Top Credit Union Exec Competition Winner (*cumanagement.com/podcast66*)

Bridging the Gap to Adoption (*cumanagement.com/1217bridging*)

Meet the 2017 NTCUE Finalists (*cumanagement.com/podcast37*)

Share Your CU's *Compensation Data*

CUES is asking credit unions across the United States to participate in two important industry surveys: CUES Executive Compensation Survey (*cues.org/ecs*) and CUES Employee Salary Survey (*cues.org/ess*). Both are open for participation through March 31.

"Participation is particularly important this year to help us learn how COVID-19 has affected the industry," says Laura Lynch, CUES products and services manager. "Each credit union that participates in 2021 provides a key data point to help us understand the effects of COVID-19 on credit union compensation. By comparing year-over-year data, we will see how the pandemic has changed and affected hiring practices and compensation packages."

Those who have previously participated can simply update their existing information and click the submit button. Visit *cues.org/ecs* and *cues.org/ess* to complete the surveys and to see a list of frequently asked questions and step-by-step guides. Credit unions who participate receive a 20% discount when they purchase the survey results, and CUES Unlimited+ members can access the survey results for free. For more information, contact CUES Survey Support at 866.508.0744, or email *surveysupport@cues.org*.

CUES Emerge *Returns*

CUES Emerge, the industry's premier emerging leader program which recognizes up-and-coming leaders, is now accepting applications for the 2021 cohort.

"CUES Emerge grew out of the CUES Next Top Credit Union Exec competition. When reimagining CUES Emerge, we wanted the program to have a strong educational foundation that would provide value to all participants to help develop the leaders of tomorrow," says John Pembroke, CUES president/CEO. "CUES Emerge is designed to build strategic leader capabilities by allowing participants opportunities to learn, collaborate with each other and grow professionally."

The program, which was developed in partnership with CUES Supplier member Currency (*currencymarketing.ca*), combines online learning, peer collaboration and an exciting competition component where participants will apply their learning and develop a business case to drive innovative ideas in their credit union and communities. The participants who complete the course work and business case in full will earn the Certified Credit Union Manager designation in recognition of their strong commitment to their career, credit union and the industry.

Participants can self-select into the competition phase for a chance to present their business case in an online pitch show, hosted by Tim McAlpine of Currency. The ultimate winner, chosen by a panel of judges, will be named the CUES 2021 Emerging Leader and receive an educational prize package.

Any current credit union employee who has not yet reached the CEO level is eligible to apply to this free program. To learn more or to apply for the 2021 cohort, visit *cuesemerge.com*. Applications will be accepted through Feb. 10.

Read a profile of the 2020 CUES Emerging Leader on page 26.

New Digital Learning Page *From CUES*

CUES recently launched a webpage dedicated to its digital learning opportunities at *cues.org/digital-learning*.

"With our focus on digital learning, CUES is continuing a tradition of offering the comprehensive training credit union leaders and directors need, when they need it and how they need it," says John Pembroke, CUES president/CEO. "Our members and other credit union professionals can now seamlessly locate the online training that best suits their needs, schedule and budget."

CUES offers a wide scope of online development opportunities for credit union staff and board members at all levels, ranging from hour-long webinars, to mid-range programs, to deep dive courses offered through our business school partners.

Users can easily search by topics, including strategy, leadership, governance and growth. The CUES Digital Learning page also links to CUES Learning Portal and its learning pathways, Harvard ManageMentor, CUES Director Education Center and much more.

Online Learning

CUES members can attend all webinars and access playbacks for free. CUES Elite Access™ Virtual Classroom (included with Unlimited and Unlimited+ memberships) offers an innovative take on online education. Learn more at *cues.org/events*.

FEBRUARY 3—MARCH 4
CUES School of Business Lending™ I: Business Lending Fundamentals

FEBRUARY 4
12 p.m. Central
Elite Access Live Q&A: Looking Past the Fear and the Noise: The Economic Forecast for 2021-2023

FEBRUARY 17
12 p.m. Central
Elite Access: Succession Planning for New Normal—Future Trends & Practical Guidelines for Building the Talent Pipeline

FEBRUARY 17—APRIL 13
12 p.m. Central
Diversity, Equity and Inclusion Cornell Certificate Program

MARCH 10
12 p.m. Central
Elite Access: Innovation for Credit Unions—a Practical Masterclass

MARCH 16
12 p.m. Central
Elite Access: Differentiating Member Service with Coaching

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2021 **ONLINE** EVENTS CALENDAR

		FEBRUARY 2021	
CUES School of Business Lending™ I: *Business Lending Fundamentals*	OFFERED IN PARTNERSHIP WITH Hipereon, Inc.	**February 3—March 4**	cues.org/SOBL
Diversity, Equity, and Inclusion eCornell Certificate Program	OFFERED IN PARTNERSHIP WITH Cornell University	**February 17—April 13**	cues.org/eCornell-DEI
		MARCH 2021	
Strategic Human Resources Leadership eCornell Certificate Program	OFFERED IN PARTNERSHIP WITH Cornell University	**March 17—May 11**	cues.org/eCornell-HR
CUES School of Business Lending™ II: *Financial Analysis and Diagnostic Assessment*	OFFERED IN PARTNERSHIP WITH Hipereon, Inc.	**March 31—April 29**	cues.org/SOBL2
		APRIL 2021	
CEO Institute I: *Strategic Planning*	OFFERED IN PARTNERSHIP WITH *The Wharton School* University of Pennsylvania	**April 12—16**	cues.org/INST1
High Performing Board Digital Series		**1st Seminar Begins April 13**	cues.org/HPB
Strategy and Digital Marketing eCornell Certificate Program	OFFERED IN PARTNERSHIP WITH Cornell University	**April 21—June 15**	cues.org/eCornell-Marketing
CEO Institute II: *Organizational Effectiveness*	OFFERED IN PARTNERSHIP WITH *Samuel Curtis Johnson Graduate School of Management* Cornell University	**April 26—30**	cues.org/INST2
		MAY 2021	
CEO Institute III: *Strategic Leadership Development*	OFFERED IN PARTNERSHIP WITH *Darden Executive Education* University of Virginia	**May 3—14**	cues.org/INST3
		JUNE 2021	
CUES School of Business Lending™ III: *Strategic Business Lending*	OFFERED IN PARTNERSHIP WITH Hipereon, Inc.	**June 2—July 1**	cues.org/SOBL3
		JULY 2021	
CUES Executive Program in Management from Cornell University	OFFERED IN PARTNERSHIP WITH Cornell University	**1st Course Begins July 21**	cues.org/eCornell-CUManager

WATCH CUES.ORG FOR MORE DETAILS

Strategic Innovation Institute™ cues.org/SII • **School of Strategic Marketing** cues.org/SOSM • **Board Liaison Workshop** cues.org/BLW

2021 **IN-PERSON** EVENTS CALENDAR

		JUNE 2021	
Governance Leadership Institute I™	*Rotman School of Management* University of Toronto	**June 6—9**	cues.org/GLI
Governance Leadership Institute II™	*Rotman School of Management* University of Toronto	**June 9—11**	cues.org/GLI2
Execu/Blend™	Santa Barbara, CA	**June 13—16**	cues.org/EB
		JULY 2021	
School of Business Lending™ I: *Business Lending Fundamentals*	Cleveland, OH	**July 19—23**	cues.org/SOBL
Supervisory Committee Development Seminar	Amelia Island, FL	**July 26—27**	cues.org/SCDS
Director Development Seminar	Amelia Island, FL	**July 28—30**	cues.org/DDS
		AUGUST 2021	
Execu/Net™	Whitefish, MT	**August 15—18**	cues.org/EN
		DECEMBER 2021	
Directors Conference	Marco Island, FL	**December 5—8**	cues.org/DC

Dates and locations are subject to change. For pricing options, visit ***cues.org/Events.***

How Preventing Third-Party Fraud Is Like *Baking a Really Good Cake*

BY CHRIS RYAN

While there's a general awareness that fraud is on the rise and is constantly evolving, for many, the full impact of fraud is misunderstood and underestimated. At the heart of this challenge is the tendency to lump different types of fraud together into one big problem and then look for a single solution. It's as if we're trying to figure out how to un-bake a terrible cake instead of thinking about the ingredients and the process needed to put them together in the first place. In this blog, we'll look at some of the key ingredients in preventing third-party fraud.

WHAT IS THIRD-PARTY FRAUD?

Third-party fraud—generally known as identity theft—occurs when a malicious actor uses another person's identifying information to open new accounts without the knowledge of the individual whose information is being used. This type of fraud is unique from first-party or synthetic identity fraud because it involves identifiable victims who are willing to collaborate in the investigation and resolution for the simple reason that they don't want to be responsible for the obligations made under their names.

Third-party fraud is often the only type of activity that's classified as fraud by credit unions and other financial institutions. The presence of an identifiable victim creates a high level of certainty that fraud has indeed occurred. That certainty enables credit unions to properly categorize the losses.

When victims become aware of what's happening, they generally take steps to protect themselves and intervene where their identity has been misused. As a result, the timeline for third-party fraud is shorter, with fraudsters acting quickly to maximize profit.

HOW DOES THIRD-PARTY FRAUD IMPACT CUs?

As digital transformation continues, more and more personally identifiable information is available on the dark web due to data breaches. Given that half of consumers anticipate increasing their online spending in the coming year, we anticipate that the amount of PII readily available to criminals will continue to grow. All of this will lead to an increase in the risk of third-party fraud.

Third-party fraud has been on the industry's radar throughout the past year, with account takeover and account opening fraud representing the highest risk. It is clear that COVID-19 has created both opportunity—increased online presence and interaction—and need—in the form of financial distress—when it comes to third-party fraud.

SOLVING THE THIRD-PARTY FRAUD PROBLEM

Continuing my cake metaphor, by following these two steps and including the right ingredients, CUs can detect and prevent fraud.

1. Analytics: Driven by extensive data that captures the ways in which members present their identity—plus artificial intelligence and machine learning—good analytics can detect inconsistencies and patterns of usage that are out of character for the person or similar to past instances of known fraud.

2. Verification: The advantage of dealing with third-party fraud is the availability of a victim that will confirm when fraud is happening. The verification step refers to the process of making contact with the identity owner to obtain that confirmation. It does require some thought and discipline to make sure that the contact information used leads to the identity owner—and not to the fraudster.

It's also critical to explore other fraud types, including first-party fraud, synthetic identity fraud and account takeover fraud. Equally important is developing a layered fraud management strategy to help keep your business and customers safe.

Chris Ryan *is marketing lead, fraud and identity, for CUESolutions provider Experian North America* (experian.com), *Costa Mesa, California.*

Read the full post and leave a comment at cumanagement.com/010621skybox.

> **"Regardless of where staff are working, the expectations for completing their responsibilities should be the same. Communicate to team members how and when things like project deadlines will be updated or communicated, as this will help keep everyone up-to-date."**
>
> **Jennifer Stangl,** director of professional development at CUES, in "Purposeful Talent Development: Four Questions For Assessing Your Success With Remote Leadership" on CUES Skybox: *cumanagement.com/122820skybox*

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