A digital supplement to:

Credit Union Times

STACK YOUR STRENGTHS FOR GROWTH

At a crucial time in financial services history, providers are looking for the next growth engine. Your competitors aren't even who you thought they were just weeks ago with organizations such as Sallie Mae offering checking accounts and P2P gaining steam. Credit unions are looking to grow, not for growth's sake, but for survival.

In this special digital supplement to Credit Union Times, we explore various opportunities for credit unions to strengthen ties with members while shoring up their financials and their future. Some credit unions have found success through mergers. Others have deepened relationships with their fields of membership whiles still others are re-evaluating their traditional member services, such as mortgages and free checking. Credit Union Times is glad to share credit unions' experiences and expert analysis so that others may learn and grow, where members generate revenue and growth for tomorrow.

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Mergers Prove to Be a Winning Strategy

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The Rundown
- Alaska USA FCU mergers of failing CUs have brought member and loan growth.
- Security Service FCU in San Antonio has found success in hiring locals to run its new branch in Utah.
- Chartway FCU won't take in CUs with bad loan or management records.

Nearly two years ago the $4.2 billion Alaska USA Federal Credit Union made its first branch foray into California by successfully merging two failing High Desert-area CUs, and now the payoff seems evident.

Indeed, "our growth numbers speak for themselves," stated Dan McCue, senior vice president of corporate administration for the Anchorage CU.

Including its purchase of four branches of the NCUA-conserved Arrowhead Central CU of San Bernardino last summer, year-to-year total deposits from all of the facilities increased 21%. Membership grew by 25% and total loans by 45%.

"Our marketing efforts focused on building brand awareness and community involvement in the High Desert and Big Bear market, and the key ingredients are simple and straightforward member communications, deliver what you promise, and provide great member service throughout the conversion process," explained McCue. And that includes "follow-up and follow-through from start to finish."

Alaska USA was not alone in 2010. The $6.1 billion Security Service FCU of San Antonio claims success with its Texas and Utah expansions.

Security Service, which has had a string of purchase and assumptions and mergers climaxing in February by taking over the failed $118 million Family First FCU of Orem Utah, contends each new market "brings its own personality but also contains similarities in member needs, expectations and levels of satisfaction."

"A market with a predominantly elderly population may tend toward higher deposit balances, where a market with a younger demographic would see more need for loans," said John Worthington, senior vice president. "When Security Service moved into each new market it offered its full complement of products and services, established its brand and provided its new members a variety of options."

In effecting a successful transition, Worthington said the CU "looked for and hired local people with many being former employees of the merged credit unions to maintain the local ties and meld the local culture with that of Security Service."

SSFCU "puts all employees through the same training, regardless of location and provides like equipment and systems," he said.

The Texas CU maintains "a comprehensive web-based system for employees providing easy access to information about products, transactions, processes, training manuals and a variety of other topics."

Security Service, he continued, empowers employees to get involved in community causes and that policy "is replicated in every one of its markets and serves to extend its brand beyond the doors of its service centers."

The successful integration of multiple CUs into its network and into new markets represents "a testament to the due diligence performed in the acquisition process," Worthington maintained.

That due diligence was put to a test in October 2010 when Security Service was quietly tapped by regulators to manage the $145 million Beehive CU of Salt Lake City, which made headlines years before following an unsuccessful attempt to convert to a mutual bank. The Salt Lake CU was eventually taken over by Security Service last December in a transaction engineered by the state and the NCUA.

Worthington maintains "a consistent, uniform approach to training and employee ownership of their roles in serving members have made Security Service's entry into new markets successful and help continue building awareness and market share."

Another CU with an enviable record of effecting successful mergers of poorly performing CUs and converting them to profitable branches has been the $1.7 billion Chartway FCU of Virginia Beach, Va.

"For us, it's really a case of getting our regional presidents to set three yearly goals on membership, assets and net income and I'm pleased to report that in Utah they've met 100% of those goals," said Ron Burniske, president/CEO, making reference to P&A deals of failing CUs in Tooele and St. George 8

Affinity Card Issuing Offers CUs a New Avenue

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The Rundown
- Affinity card issuing opportunity opening as major banks leave.
- Expert says due diligence especially important in affinity card issuing.
- But affinity card programs can make cards a membership driver at CUs.

A lucrative credit card issuing avenue that has previously been reserved primarily to large banks has begun to open up for credit unions.

Provided a credit union treads carefully, card portfolios that are issued in affinity with a key part of a credit union's field of membership can carry higher average balances, more frequent card usage and thus higher gross interchange and stronger cardholder loyalty.

But they can also have higher than average costs and could, if mishandled, hurt the credit union's profile within that community or with that group. Credit unions looking for affinity partners should perform their due diligence carefully, according to Tim Kolk, president of TRK Advisors, a credit card consultant who works often with credit unions.

Kolk outlined the opportunity affinity credit card issuing represents for credit unions for executives attending a March 10 web seminar on topic hosted by Callahan and Associates.

Kolk told the assembled executives that credit unions have opportunities in the affinity space because many of the large banks that used to dominate it have backed away.

About the largest is FIA Card Services, the card issuing arm of Bank of America that used to be the independent monocard issuing bank MBNA. Bank of America purchased MBNA in 2006 and launched FIA Card Services the same year.

Kolk told the executives that FIA and other large issuers simply found that most affinity deals were simply too small for them to manage efficiently and make money. In addition, the economic downturn has meant they retreated generally from the card market and were more willing to cut lose affinity card portfolios that were not sufficiently profitable, Kolk explained. These organizations can be very open to partnering with a credit union to issue their cards for them.

The $641 million Purdue Federal Credit Union, headquartered in West Lafayette, Ind., provided a good example of one such opportunity.

According to Stephanie Hainje, a credit card program specialist for Purdue, the Purdue Alumni Association had originally signed up with MBNA as an affinity credit card partner. But by 2006, the organization was looking for an alternative while, at the same time, the CU was looking over its card program with an eye to reviving it.

Hainje told the webinar that the card program was not losing money, but it had hovered at about $25 million in receivables for several years. The portfolio also had a fairly high attrition rate in student cards, which the CU had considered promising cards for the future so their loss represented a particular bite. So Purdue FCU decided to bid for the Alumni Association partnership and created a bid, its first for an affinity partnership, in less than two months. Further, when an agreement was struck, the CU had less than six months to implement it before the association's agreement with MBNA/FIA expired.

The Purdue Alumni Association Visa Card launched on July 3, 2006, and Hainje reported the CU opened 52 new card accounts the very first day and 302 accounts in the first month. These new accounts represented $842,000 in new credit lines for the CU and came to represent something of a low water mark for the credit union.

"Only two times in the last five years our monthly Visa production has not exceeded $842,000," Hainje told the webinar, adding that the highest production month was $3.3 million.

Hainje attributed the success to several factors, including having a strong issuing partner in the association as well the ability to instant issue credit cards and access to the powerfully popular Purdue logos and sports symbols.

The CU issued two affinity card designs in the first year and added a third in May 2010. In the wake of the New Orleans Saints winning the Super Bowl, the credit union was able to use the image of Drew Brees, a Purdue alumnus, for the new and very popular card, she explained.

As of this year, Hainje reported, the credit card is the CU's most profitable product and it has become the lead 8

Retrain Your Thinking About CU Competition

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If you think you have a good grasp on your competition guess again. Hint: it's not other financial institutions local or national.

"The real competition is from those outside the financial services world," said James Robert Lay, grower of relationships at PTP New Media. "It's Google, Apple, PayPal, Amazon even Starbucks with its new mobile pay."

Wanting to drive an awakening in the credit union industry Lay and Bryan Clagett, chief marketing officer/investor at online financial solutions firm Geezeo, have launched sharewhatyoufear.com to jumpstart conversations about shifting the credit union industry's strategic outlook. The pair sees fear as a good way to drive change, innovation and want those in the industry to embrace it rather than running from it.

"It's frustrating to see the industry viewing their competition in a very traditional manner," said Clagett. "Credit unions actually have an edge because they can leverage the high-tech and human factor, which is something Google can't do or even Apple as they deliver payment solutions. It's about maintaining dialogue and conversations with members through a variety of different engagement platforms. It's not just driven by technology but by consumer preferences, which are changing quickly and new products that are being rolled out are sexy to consumers."

Clagett added that the CU strategy of looking at the competition in the immediate marketplace and what's in the consumer mindset has to move beyond the geographic market.

"The bank or credit union down the street becomes less and less of the equation when the Mints and Squares are looking at

conceivable payment solutions through Twitter or social media platforms," said Clagett.

According to Lay, the discussions can no longer be just about offline or online, internal or external awareness but rather bringing it all together on the same page to create real communication.

"We're seeing a way to extend PFM as a segue into financial

Horizon CU then created a partner 'conversation campaign' that promoted the value financial education is for employees. We would cite the direct correlations between financial stress and workplace performance, employee morale and the impact of not addressing this employee need.

education or financial literacy," said Lay. "Think about it: One of the main principles we stand on is people helping people but how do we show it. Instead of the traditional attend our financial literacy seminar then take the materials home to figure it out, there's now a tool that allows members to do more. So now they have both the tool and the education."

Clagett added that the credit union industry needs to embrace and understand that consumers' delivery expectations revolve around when, where, and how they want it. Rather than touting the credit union difference or value of a lower rate, credit unions should be demonstrating that value by truly empowering their members.

Recognizing that the credit union message was not resonating with its SEGs the way it should, Spokane Valley, Wash.-based Horizon Credit Union had to completely shift gears.

"Nobody cared that we were not-for-profit, owned by our members or offered better rates, they'd just shake their head politely and there just wasn't that excitement," said Josh Allison, relationship development manager at Horizon CU. "What I realized is that many of my contacts were HR professionals or executives who already had free checking and decent rates and probably weren't using predatory lending so they didn't 8

Free Checking Will Likely Be Redefined

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The message from big banks is abundantly plain: the era of free checking is over.

As banks scurry to replace fees wiped out by new federal laws and regulations the question then is, can credit unions sustain the offer? If banks cannot afford it, how long can credit unions?

Right now just 65% of bank checking accounts are free with no strings attached, according to Bankrate.com. That's down from 76% in the previous year's survey.

At the top 50 credit unions, by contrast, 38 offer no-strings, free checking. At credit unions of all sizes, over 75% still do, said Bankrate.

Experts are unanimous in stating that free checking is not dead for credit unions, but just as banks are hunting for ways to nudge up noninterest income streams, so are credit unions. Free checking offers will require a hard look.

"Yes, I think credit unions will be able to sustain free checking. But they will have to be smart about it," said Jay Johnson, an executive vice president at Callahan and Associates, a credit union consulting firm in Washington, D.C.

Smart how? NAFCU President/CEO Fred Becker said that the credit union surveys he has seen indicated that a majority are quietly re-examining the viability of free checking. "Expenses are going up in the industry. Credit union management and their boards are facing many choices, few are palatable. Eliminating free checking is an option on the table."

Becker said he does not think that would be the best choice for most credit unions. "I believe free checking is a real differentiator for credit unions. It helps set credit unions apart from banks."

Additionally, a generation of consumers has been conditioned to believe checking should be free and they likely will not react happily to imposition of fees. If banks go this route alone, that just may provide credit unions with a significant marketing edge. But, said Becker, "credit unions understand their business model is changing and that will involve how checking is priced too."

But none of this spells an end to free checking, quite the contrary if Dave Colby, chief economist at CUNA Mutual Group in Wisconsin, is to be believed. Colby is adamant that most credit unions will be able to maintain free checking but strings will be attached.

At many credit unions currently, checking is free to all ,but going forward, said Colby, a variety of relationship-based strings will get attached. For instance, free checking may be offered to members with other relationships to the credit union such as a car loan, a credit card, or direct deposit. Some credit unions, he added, may decide they need to reinstate minimum balance requirements though the minimum can likely be in any product, from savings accounts to CDs.

Colby's bigger point was that the only way to make free checking make sense for the credit union is if it leads to getting more profitable business from the member. As an end free checking is a dead end, he suggested.

Colby also advised that many credit unions should start purging free accounts that are dormant. No activity accounts incur costs and those accounts are doing the credit union no good.

Greg Wempe, vice president and senior executive consultant at consulting firm BancVue, provided still more insights into the future of free checking at credit unions. A crucial point made by Wempe is that the research is plain that "consumers dislike balance-based fees for checking." The temptation for many institutions is to impose a policy where checking is free with balances of $2,500 but he suggested that only half of account holders qualify. For the rest the message is an off-putting "we only want you if you have $2,500."

But this does not mean a credit union has no options. Wempe added, "Consumers are far more accepting of fees based on activity they can control." For instance, he said, there would be acceptance of a fee for a printed statement because members can turn that on or off.

Ditto for direct deposit or perhaps a minimum number of debit card transactions per month.

"When members believe the fees are under their control there is much more acceptance," said Wempe.

Add up all the factors and will credit unions persist in offering free checking? Wempe was blunt in his prediction: "Free checking as it stands today cannot be continued to be offered. Free checking will go the way of the dodo at most institutions. What will replace it are accounts with properly structured incentives involving relationships and transactions that will allow many members to reduce their fees to zero."

Free checking definitely can remain a marketing tool for credit unions but it will be a refined, adjusted offering made available to members who bring revenue to the institution in other ways.

"These will be great times–a great opportunity–for bolstering relationships with members," concluded Wempe.

Balancing Act: Expenses and Member Services

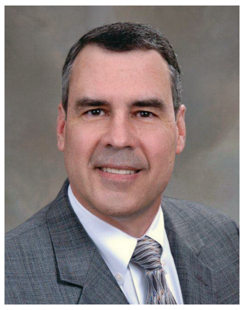
With today's economy still sputtering, credit unions–and just about any other organization across the nation–remain vigilant about cutting costs to survive and hopefully thrive when the economy returns to good health. In the meantime, credit unions are making every effort to keep their expenses in check while not sacrificing member service to maintain their value.

Surprisingly, even with the lingering economic woes, many credit unions are actually growing their memberships. That's great news for them, our industry, and the economy. But, unfortunately, there are a fair number of them that want to continue growing but cannot afford to because of the high expense of properly serving their expanding memberships. A couple of those costly overhead expenses include building and maintaining branches along with hiring additional employees to fill those branches. If they cannot physically expand to accommodate their growing membership, how do these credit unions continue growing–or simply retain their current members? It's a quandary for sure, but there is an answer: shared branching.

Shared branching promotes the cooperative nature of credit unions to members. You can implement technology services galore, but there's nothing like brick and mortar that gives members the feeling that their credit union is always available to them.

Here's how it works: A shared branching network consists of participating credit unions nationwide that share their branches with each other. Members of the participating credit union can use any other participating credit union's branch for free to access and manage their accounts as if they were their credit union's regular branch. Shared branching can help a credit union's growth without the added cost of constructing buildings and hiring employees.

I'm not sure if there's another industry that helps itself more than this one. Credit unions constantly help one another to keep the movement thriving. It's a cooperation that must be done to compete with its much larger counterparts.



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Shared branching helps if a branch must be shuttered in a particular area because of a difficult business decision, for instance. A shared branch can easily take the place of a closed branch without the high cost of maintaining it. It can minimize the possible damage of losing those members because of closing a branch in a particular area. With shared branching, there's still a credit union presence in the area to serve those members affected by the closing.

In another scenario, many branches located in the workplace have strict security access that makes it a challenge for spouses or other family members to bank there. A shared branch in the same vicinity can eliminate that access challenge without having to build and staff a new one. There's no longer a need to use the security-laden branch because the comparable shared branch is nearby.

Participating credit unions don't need to spend an extra penny on employees because shared branching allows them to leverage other participating credit unions' employees to expand their presence. One credit union that has been around for over 50 years only has 13 employees, still works in its original headquarters, and it has 15,000 members who reside in multiple states. Because of shared branching, it is able to serve its members via the thousands of branches conveniently nationwide.

One of the biggest keys to shared branching success is retaining members who have moved from the credit union's immediate service area by being able to offer them a brick and mortar remote location where they feel comfortable transacting their business. One member of a participating credit union, for example, was excited to be able to manage her finances remotely at her credit union's shared branching location on her college campus–which was across the state from where she used to live.

As a bonus, according to a study by Raddon Financial Group, even though the shared branching users only make up 6.8% of all the households at the average credit union, they bring in 12.7% of the total profit. On average, the annual household profit for shared branching users was $90.25, compared to profit of only $7.07 on households that do not use shared branching. Even after applying the direct costs associated with shared branching transactions, the average profit remains at the lofty level of $47.53.

Another credit union that started using shared branching in 2007 began opening branches to shared branching transactions. This process took the credit union until January 2008 to cross the threshold where the income received from acquired transactions exceeded what it paid for its members performing transactions at other credit union owned branches. For example, in April of 2010 the credit union netted just over $7,000 in excess of its cost–which annualized is an estimated $84,000 in additional income.

From the stated examples and Raddon study, not only is shared branching cost effective for credit unions on a budget, it is also profitable for credit unions looking to boost their bottom line. So for those credit unions that are looking to grow or replace branches without the overhead expense of building and staffing branches, shared branching is a viable option to consider in this still uncertain economy. ■

Remote Deposit Brings in Business Members

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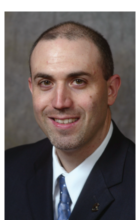
The Rundown
- Remote deposit catches on with some business members.
- Previously untapped business sectors now getting a second look.
- Educating skeptics still a challenge.

Organic growth appears to be the way to go for some credit unions as they explore channels to bring in more revenue that most likely will come from relationships with current members rather than potential ones.

For others like the $4 billion Bethpage Federal Credit Union, striking a balance between serving longtime members and courting new ones is one strategy being used to build its business services program. Deposit management and remote processing is the cooperative's latest efforts to increase its revenue stream in the middle of a highly competitive marketplace.



Neglia

Small business members are Bethpage's fastest growing membership segment, said John Neglia, manager of business services at the credit union in Bethpage, N.Y. After seeing that most of its competitors were offering services that allowed their customers to scan and deposit checks remotely, the credit union made the move in June 2010 to do the same. Even though Bethpage has 24 branches, Neglia said other financial institutions in the area easily had 70 or 90 branches. Offering a remote deposit product would help increase the credit union's footprint and further build its pitch to small businesses hungering for convenience.

"Some of our members inquired about [remote deposit]. We wanted to be on a leveled playing field since a lot of our competitors had been offering the service for a few years," Neglia said. "It certainly helps us serve a bigger, potential member base."

Bethpage signed on with CO-OP Financial Services' My Deposit last summer. Through the use of a scanner and computer with internet access, business owners can scan and deposit checks remotely. While the Rancho Cucamonga, Calif.-based CUSO did not provide the number of credit unions currently using the service, usage is growing, said Eric Porter, executive vice president of business development and marketing.

Porter

Forty-five Bethpage members have implemented My Deposit, Neglia said. That figure is right where it needs to be for now because the credit union wanted a controlled rollout to be sure the service would be a good fit for everyone, he noted. For the first five months, Bethpage worked with businesses it knew would be most comfortable using the remote service. More than 21,000 checks have been processed, which means less of them going through the branches and a cutback on the costs of in-house processing. On a typical day, a Bethpage branch may have 200 checks coming through.

"With less volume coming through the branches, we can focus on other initiatives going on inside the branches. Overall, [remote deposit] creates efficiencies," Neglia said.

So far My Deposit has not brought in revenue but Neglia said he is optimistic about the amount it could potentially bring in. Even better, he added, is how remote deposit can help build connections to other products and services for business members. Bethpage will market cash management and online banking with remote deposit. Online banking, for instance, is a natural link to the service since many members were signed on here first, Neglia said. My Deposit is offered either as a bundled or courtesy service through three tiers depending on the amount of volume and deposit balance of the user. Most of the businesses are high volume and high balance producers.

> Offering a remote deposit product would help increase Bethpage's footprint and further build its pitch to small businesses hungering for convenience. 'Some of our members inquired about [remote deposit]. Bethpage wanted to be on a leveled playing field since a lot of our competitors had been offering the service for a few years. It certainly helps us serve a bigger, potential member base.'

Porter said My Deposit is not a huge revenue generator for CO-OP but it can be for credit unions looking to become the primary financial institution for members and select employee groups. Small businesses also have an advantage because the remote service reduces float time, provides email receipts, online revisions and adjustments and a feature that allows a balance check before checks are submitted to the credit union. Porter said robust risk and fraud assessment with My Deposit are done immediately and all identifying information processed through the imaging product is stored so du-

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Should You Be Selling Off Mortgages?

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Real estate lending is up across the credit union industry, but then something new is also happening: "The loans are not sticking to the books," said Dave Colby, chief economist at CUNA Mutual in Wisconsin.

What Colby is saying is that credit union portfolio managers are selling off mortgages almost as fast as they originate the loans, usually either as part of an asset-liability management strategy or because regulators are pressuring them to offload risks, particularly risks inherent in long-term, fixed-rate loans.

But is selling off mortgages the smart thing to do?

Credit union lending experts offer a medley of opinions.

For starters, understand that although the market is torpid in some regions nationally, "We are seeing a pickup in first mortgage originations, also in home equity loans," said Jay Johnson, an executive vice president with consulting firm Callahan and Associates. Johnson agreed with Colby that credit unions are selling around half of all the mortgages they originate. "A more typical year would have them selling only 20%," said Johnson.

Andrea Blais, CEO of Community Mortgage Funding in Pomona, Calif., said that in her market, credit unions are selling off even more mortgages than Johnson's numbers indicate. "Here, they are retaining perhaps 20% of the loans. They are selling off around 80%."

That may be very smart.

Colby, for instance, is adamant that credit unions that are making 30-year, fixed-rate loans at today's historically low interest rates need to sell most or all of them off. "A credit union can hold ARMs because that is a way to benefit from the spread of a loan," he said. That is, even at the very low rates ARMs pay today, it is a higher rate than a CD or savings account earns a member, so there is an interest-rate spread that can benefit the credit union.

Selling a mortgage is not tantamount to selling the member, although that is what you hear from some credit unions that do not want to sell their mortgages.

At Ventura County Federal Credit Union in California, CEO Joe Schroeder said that his institution is doing much as Colby advised. "We keep our ARMs and we sell our 30-year, fixed-rates loans in the secondary market."

Not every credit union executive agrees with this strategy. At Liberty Bay Credit Union in Massachusetts, CEO Ken Dyer says that right now his credit union is seeing comparatively low mortgage volume and is holding onto most of the mortgages it originates. The 30-year, fixed-rate loans are going out at 5% and that is a healthy return in today's marketplace, he said. "It's all about understanding and managing the risk," said Dyer, who added that Liberty Bay is not pressured by regulators to sell off its 30-year loans. "It's not a big part of our balance sheet; that is why."

Blais also expects that as interest rates tick up, more credit unions probably will hold more loans.

Fred Becker, CEO at NAFCU, concurs that we are likely to see a spike in interest rates. "Interest rates will go up or this country is in big trouble."

Becker declined to advise on the sell or keep question, except he stressed that when a credit union chooses to keep a large portfolio of fixed-rate loans, it is imperative that it work with advisers to insure that, in a worst case scenario, the portfolio could be quickly sold off at good rates. "It's not a question of wanting to sell that portfolio today. It's what if that is the wise thing to do."

Blais also indicated that there are well-established techniques for hedging risks associated with holding a portfolio of long-term, fixed-rate loans. She pointed to interest rate swaps or options as for instances but, either way, a credit union with a large portfolio of fixed-rate loans needs to be looking into ways to manage those risks, she said.

Becker also insisted that one point needs to be made very clearly in any discussion of the how-to of managing mortgage portfolios: "Selling a mortgage is not tantamount to selling the member, although that is what you hear from some credit unions that do not want to sell their mortgages."

Even when a loan is sold, Becker said, many credit unions continue to service it. As far as the member is concerned, every point of contact is exactly the same. Selling the loan puts cash on the books, and servicing it brings in a steady stream of revenues after the fact.

"No matter what the decision will be–to portfolio or sell loans–the primary consideration should be identifying, managing and mitigating risk," Blais explained. ■

Conservative Investment Will Continue to Serve Your CU

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A cartoon posted in a health club–perhaps by a member less than enthusiastic about his exercise program–shows the proverbial tortoise and the hare on a running track.

The hare is wearing running shorts and dripping sweat, obviously having raced all out. The tortoise looks up at him and asks, "Has it ever occurred to you there may be a reason I'll probably live 50 years longer than you?"

Life expectancy aside, credit unions' historically slow-and-steady investment policies seem to have served them well over the past few years. Experts contacted by *Credit Union Times* indicate credit unions are generally doing a good job with investments, and that conservative approach will serve well in the volatile times ahead.


Felker

Charles Felker at First Empire Securities believes the turtle indeed wins the race.

"There are three things that might necessitate a reappraisal of an investment policy–changes in laws or regulations, examiner comments or criticism, and changes in the institution's operating environment," he said.

"I think it's the third area–changes in the operating environment–that can get neglected."

For example, a credit union with a field of membership covering employees at an automobile plant realizes the factory has been hit with major layoffs. The credit union may need to liberalize its investment policy, because as members shy away from taking out loans the credit union will likely be forced to rely more heavily on those investments for income.

"They may extend maturities in their investment portfolio," Felker indicated. "There will be some initial interest rate risk. That's a given. But if it's done within manageable levels of risk, and they monitor and manage the risk, then it's still safe and sound."

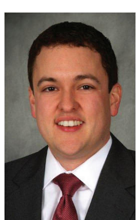
Indeed, recent economic uncertainty has prompted many credit unions to make investment policy changes, often a soul-searching, heart-wrenching experience.

"They'd rather be making more loans, but they're not, and changing their attitude about their investment portfolio has been painful, I think," Felker said.

Felker posed three questions:

- Does the policy meet the institution's need for safety, liquidity and income?
- Does it meet regulatory standards and guidelines?
- Does it conform to generally accepted management practices?

Andrew McGeorge at CNBS indicated credit unions with the best-performing investment portfolios today added a lot of good long-term investments in 2007 when the nation was at a positive point in the economic cycle and rates were high. They still have those attractive five-year investments on the books.


McGeorge

"The people who have not managed well are people buying a lot of duration now in an effort to keep their ROI up, particularly in mortgages, because they're taking the risk rates will rise and they'll be saddled with those mortgages for years and years," he stated.

Continuing to look ahead, "From the inflation standpoint, if the Fed raises interest rates, it's not really going to have an impact on the longer-term investments credit unions buy because you don't incorporate inflation expectations until you get out into 20-year investments. We just don't buy those as an industry."

"The bigger development over the next year that affects the greatest number of credit unions is what happens to the corporates, and whether they'll be able to offer investments as they have in the past and whether it's going to be limited by how much capital you contributed."


Theriot

He suggested that may force a lot of credit unions that have only dealt with a corporate for investments to start thinking about buying securities or overnights in some sort of money market mutual fund.

Marcel Theriot at SWBC observed investors, particularly financial institutions, go through cycles. When interest rates are higher, investors become more conservative. When there is a long period of low interest and weak loan demand, credit unions start reaching for yield and take on more risk, perhaps in the form of duration and longer maturities.

"When interest does rise, you've caught yourself in a cycle where you cannot invest in higher yields," he warned. "Being able to maintain a portfolio with laddered securities, which maximizes your balance sheet and your ALM, is more important right now than ever."

Topping Theriot's list to watch in for 2011 is interest rates, and how CUs structure their portfolios to take advantage.

"It's very important to understand your portfolio will need to be adjusted," Theriot advised. "Now is probably not the time to be extending and reaching for yield by adding to your maturity schedule. Now may be a time to play a more conservative role until interest rates settle in.

At BECU Trust, Mike Quamma and Kathy Elser expect continued volatility and uncertainty. They also note regulators have been concentrating on liquidity and interest rates. Issues they may have previously checked on a more surface level are now coming in for greater scrutiny. ■

Credit Unions Hop On the Social Media Express

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Seven years ago Facebook was a glint in founder Mark Zuckerberg's eyes. Today it has 600 million users and, by any measure, it is one of the stickiest sites on the Internet. Users spend 700 billion minutes per month on the service, with the average user generating 90 pieces of content per month, according to Facebook's usage stats.

Over at micro-blogging site Twitter, 87% of Americans are aware of the service, reports Edison Research/Arbitron Internet and Multimedia Series, and that is up from 5% two years ago. Over one billion Tweets are sent every week.

And then there are Foursquare, Quora, and dozens more online services that bring users together for chat and information exchange.

Best guesses are that right now only a minority of credit unions are involved in social media–but guesses are also that the number will soar in the next year or two because, in lots of ways, social media are the ideal communications channels for credit unions.

"Credit unions and social media are a perfect fit," said Verity CU Chief Marketing Officer Shari Storm. "Credit union members like to engage. That is why many belong and social media let them engage with their credit union."

At Navy Federal Credit Union Public Relations Manager Jennifer Sadler said much the same. "We are involved in social media because we want to achieve a dialog with our members, deepening our relationship. We want a community."

There also are increasing numbers of users who appear to want to limit their online existence to Facebook. That is a big reason Verity maintains an active Facebook presence. "Some users just don't want to leave Facebook," said Storm.

What's more: people are talking about you online and, more particularly, on Facebook, Twitter, and Foursquare (a check-in service where users announce their location). That is why high on the must-do list for any credit union is to "monitor what people are saying about your brand, that is very important," said Stacey Hartmann, e-channel manager at CUNA Mutual Group in Wisconsin.

The money question of course is will an active social media presence translate into more deposits, more loans, and more member involvement? Right now, nobody has hard numbers to prove the case, but the belief throughout financial services marketing is that a strong social media presence is a kind of marketing push and, either way, this ought to produce more business. But give that premise a couple years to sort out as social media marketers hone their skills inside credit unions.

Navy Federal has five employees working on its social media team. Smaller credit unions won't have that staffing. And, the reality is that doing social media goes beyond Monday to Friday, 9 to 5, either. 'People expect quicker responses when they post on social media.' Often that may mean weekend work hours because social media are a 24/7 phenomenon.

For the present, marketers are using trial and error to determine what brings the best results in social media, and increasing numbers of financial institutions, credit unions among them, have joined this land rush.

Just two problems: gaining visibility is not easy and then there also are deep potential pitfalls that need sidestepping. But here is the headline: you have to get involved in these services or get left behind.

"Credit unions that are not involved in social media are losing ground," said Storm. "They really are."

The way to get started is elementary, according to the experts. Study what peer credit unions are doing on social networks, then come up with a plan to get engaged. Know the objectives and the staff who will be tasked with executing the plan. These are huge steps toward establishing a meaningful social network presence.

From there, it gets harder.

MUST AVOIDS

It is difficult to do social media right. But it is very easy to do this wrong. Here is a sampling of must avoids:

- Never pretend not to be a credit union employee when you are posting on other sites, advised Verity's Storm. A well-known CEO of national retailer was unmasked not too many months ago posting negative information under a pseudonym about a take-over target. Do this and it can bring oceans of bad press. It is tempting to trash a banker competitor for too high fees and too high profits. Don't. Stop right there, says Storm. You cannot do this as a credit union employee, and you should never post in camouflage.
- Only authorized personnel should post on behalf of the credit union, advised Navy Federal's Sadler. What you don't want is a well-meaning employee spotting a bashing post about the credit union and weighing into a debate. That usually can only produce trouble. At Navy Federal employees are advised to forward any such posts they spot to the social media team. It leaves the employee feeling something will be done to right this situation.
- Don't over-market or self-promote. That's a sure way to turn off the online universe, said Sadler, who offered Navy Federal's formula for mixing up postings: "80% real time information, fun information; 20% letting them know about promotions. Our primary focus is to bring value to the members. That is what keeps them engaged."

A big eye-opening reality: doing social media right takes a lot of time. "It will take much more time than you expect," said CUNA Mutual's Hartmann. The core problem is that engagement–the why of social media–just is time-consuming.

A proof: Navy Federal has five employees working on its social media team. Smaller credit unions won't have that staffing. And, the reality is that doing social media goes beyond Monday to Friday, 9 to 5, either. "People expect quicker responses when they post on social media," said Sadler. Often that may mean weekend work hours because social media are a 24/7 phenomenon.

Sounds like a lot of hard work? Maintaining a compelling social media presence unquestionably is challenging. But Hartmann said, "These tools are simply too important to ignore." ■

Remote Deposit

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Taylor

plicate checks cannot be deposited separately.

"It streamlines the back office and electronic deposits are much less expensive than manual deposits," Porter said. "It locks merchant relationships in. Credit unions have the ability to build even more relationships."

Neglia said if he had to pick one obstacle to offering remote deposit it would be convincing those to embrace a service that goes against the traditional, manual check processing done in the branches.

"Some businesses are still a little hesitant about the technology. The decision makers are thinking about the security of it. That's an educational piece we continue to work on."

Bringing small business owners on board with nontraditional cash management systems and even with automated clearinghouse transactions has been a challenge at the $730 million Harborstone Credit Union in Lakewood, Wash. That's according to Tami Taylor, online cash management specialist, who said honing in on a specific type of business has helped build alliances and revenue.

"Some small businesses are hesitant to make changes. We had to change our focus. We look at businesses with staff that need payroll and small- to mid-size businesses that do their payroll in house," Taylor said. "Prime candidates are those that do debits on a regular basis."

'Some small businesses are hesitant to make changes. We had to change our focus. We look at businesses with staff that need payroll and small- to mid-size businesses that do their payroll in house. Prime candidates are those that do debits on a regular basis.'

Harborstone is already seeing some revenue potential as it recently signed on a few doctors' offices for cash management, Taylor said. The credit union is hoping to build even more relationships in the medical field including with dentists. Still, the range of businesses it currently serves vary from mom and pop to large corporations and lately, churches that accept tithes through debit cards. Harborstone offers three cash management packages that range in monthly fees from $10 to $50.

"We're still building relationships. The more people we get using it, it will be more of a revenue stream," Taylor said.

Educating the old school set means a lot of hand holding but the outcome is worth it. Taylor said through new account lists, referrals and going out into the community, she is developing connections. A former commercial banker, she recalled how Harborstone had a strong business deposit program but lacked in loans, which is what business owners were initially asking for. That was three years ago when the credit union was on the cusp of launching online cash management. Taylor saw an opportunity to bundle services as a way to build additional revenue. Today, even though Harborstone was a little behind its competitors, half of the credit union's business members using ACH came over from banks.

"When I come into a business, I don't market right away on cash management. I start with the free advertising on our website. I take the approach of offering other services that may benefit an employer's employees." ■

NEXT STEPS

READ about Bethpage's CUSO relationships at
CUTimes.com/BethpageCUSOs

LEARN about Harborstone and SBA loans at
CUTimes.com/HarborstoneSBA

Mergers

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during 2010.

The January 2010 merger and conversion of the $311 million HeritageWest FCU of Tooele produced an increase of 25,000 new members within six months, said Burniske.

“Just like we’ve done in St. George, we exercise proper due diligence, make sure we have the same philosophy and operating system and that both credit unions are headed in the right direction,” said Burniske, noting the June 2010 merger of the $139 million Southwest Community in St. George also produced comparable increases.

Both HeritageWest and SouthWest are now divisions of Chartway but the mergers have allowed Chartway to expand its Utah footprint by 50%.

Burniske, who has long been outspoken and critical of the merger strategies of his Western State competitors, maintains the success of the two Utah consolidations underscores a policy of steering away from CUs with “bad loan records and bad management.”

Burniske faults both the $3.7 billion Patelco CU of Pleasanton Calif. and Security Service for bidding on poorly performing CUs with Patelco taking over Cal State 9 of Concord, Calif. in 2008 and Security merging Beehive.

“We took a look at Cal State and took a pass, and we wish Security good luck on Beehive,” quipped Burniske. He continued, “Why would they want to be in a merger with a credit union with that kind of record?”

The Chartway record is one “of hitting homers,” boasted Burniske.

Officials of Security Service have declined comment on the Burniske remarks maintaining their own merger record speaks for itself.

Ken Burns, president/CEO of Patelco, said the 2008 P&A transaction of Cal State 9 took place before he joined the San Francisco CU, but today “those branches have done well for us and I’d say it turned out to be a wise decision.” Stats on those were not immediately available. ■

Affinity

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product for drawing in new members. The student attrition problem has dropped sharply, she said, and the card has become a crucial part of the way the CU has been able to retain members. Perhaps most surprising, she reported the CU was recently notified that it had become one of the top 250 Visa issuers.

But other executives made clear that CUs are not limited to having one large affinity partner.

The privately insured Christian Community Credit Union, headquartered in San Dimas, Calif., has found success in affinity card partnerships with two ministry organizations that are part of its field of membership. David Estridge, senior vice president for marketing for Christian Community said the roughly $520 million credit union had been approached by one of the groups about an affinity card. The group, which focused on aviation support of Christian missions around the world, had members and supporters that the organization believed would be very open to using a card to further support the group.

The group's card portfolio is not large, but it is significantly profitable, Estridge reported. He added that the second group had only recently started its program with the CU so it was hard to measure.

Both groups have their own card art and both have deals with the CU to make a donation whenever someone in the group opens an account. The groups also have a share in income from the accounts, Estridge said.

An affinity partner can be an entire community as well. The $836 million Unitus Community Credit Union, headquartered in Portland, has an affinity partnership with Choose Local, an effort to get Portland residents to spend money with local businesses.

Paul Kirkbride, vice president of credit services for Unitus, reported that Choose Local and the City of Portland approached Unitus looking for a local credit card issuing partner to support its effort and benefit the community. Under the terms of the partnership, the CU issues a Choose Local Visa card that the Choose Local organization markets to its current and prospective base of consumers that use its local discount cards. The CU compensates the organization for new accounts and donates a percentage of its card interchange to local beneficiary organizations like the schools.

Hainje

'Only two times in the last five years our monthly Visa production has not exceeded $842,000.' Hainje attributed the success to several factors, including having a strong issuing partner in the association as well the ability to instant issue credit cards and access to the powerfully popular Purdue logos and sports symbols.

Kirkbride said that the card program, which launched in May 2010, has only opened 121 cards so far but has already had a positive impact on the CU in the form of positive publicity.

“The Mayor of Portland had a big news conference where he promoted the card,” Kirkbride said, and now has a huge version of the card sitting in his office.

“There is a common resonance between what we are trying to do as a credit union and what Choose Local is trying to do with building up the local business community, Kirkbride said. “We expect to keep building on that.”

The CU is exploring a lot of possibilities with the card, Kirkbride explained, including signing on other beneficiary organizations that cardholders could designate and working more closely with those organizations to market the card to their employees, members and volunteers.

“There are a lot of different ways can go with the card,” Kirkbride said. ■

NEXT STEPS

LEARN more about the Christian Community CU's affinity card with Mission Aviation Fellowship, here

Competition

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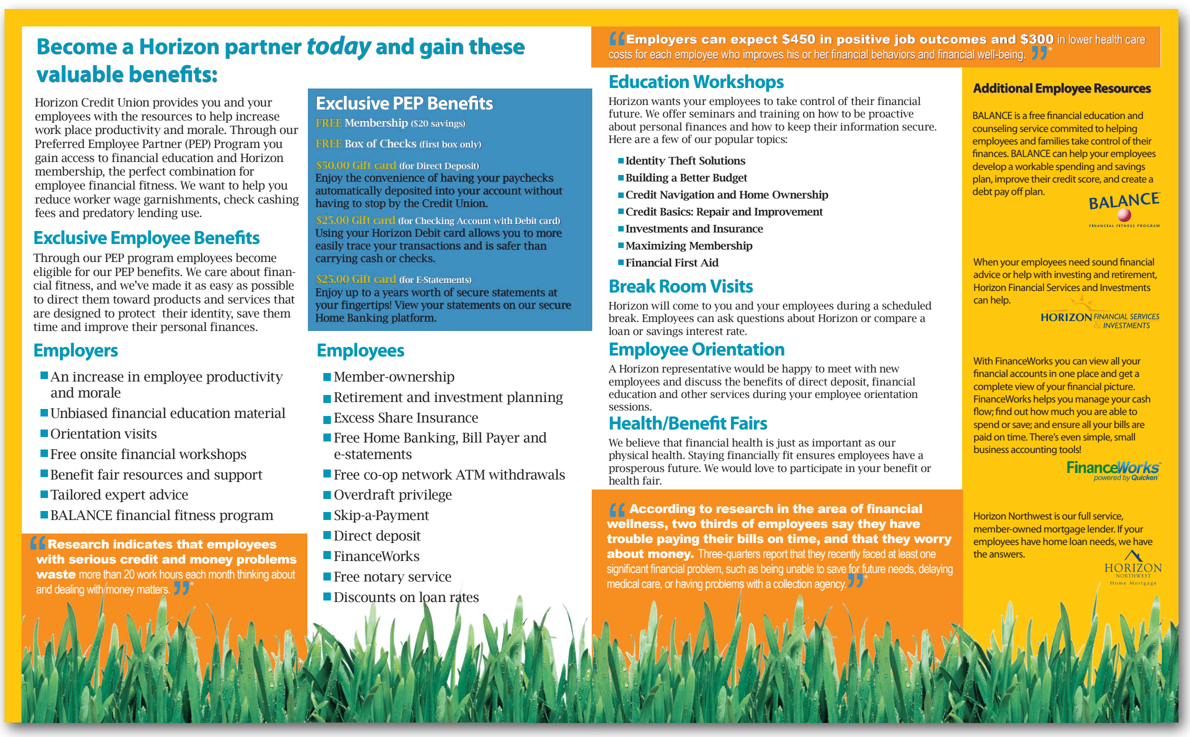

see or need the CU benefits like their employees did.”

He then decided to show the value through financial education, which would meet a core community need that has been permeating the workplace environment: financial stress.

“We completely revamped our message to being a financial wellness partner and our method to local faces for local places which meant area branch managers would go in with me when talking to our SEGs,” said Allison. “We then created a partner ‘conversation campaign’ that promoted the value financial education is for employees. We would cite the direct correlations between financial stress and workplace performance, employee morale and the impact of not addressing this employee need.”

He added that by empowering its branch managers with a new message and method, the strategy proved to be a success. With a local face from a local branch driving its business development efforts, the credit union was able to create deeper, more meaningful relationships.

“We’ve stopped trying to sell the credit union and now focus instead on finding ways to collaborate on mutually beneficial goals and it has made such a difference,” said Allison. “Consumers are sick of being sold. I know I am. Since we’ve pulled back we’ve gotten more buzz and more interest from the community.”

The challenge for credit unions moving forward is how they can take the chore out of banking.

“It changes the way a credit union sells to a SEG and sponsor. Consumers expect to be able to open their account right then and there when and where they want. They can go to ING or an AMEX app on iPhone and do just that, so credit unions need to meet the need of that expectation. Consumers are looking for simplicity that’s the idea behind BankSimple and I think some 20,000 people are on a waitlist.” ■

NEXT STEPS

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