Special Report: Growth

Credit Union Management

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THE BALANCE SHEET/ GROWTH CONNECTION

In early 2017, Oregon Community CU bolstered its net worth and ROA with a balance sheet restructuring. Find out why and how the CU did it.

PLUS

Manage Your Balance Sheet *for Growth*

IN 2017, OCCU RESTRUCTURED NOT ONLY ITS LOAN PORTFOLIO, BUT ITS ENTIRE BALANCE SHEET. THAT EFFORT BOLSTERED THE CU'S NET WORTH RATIO AND ROA.

BY BRYAN OCHALLA

Oregon Community Credit Union (*myoccu.org*) began 2017 with a loan portfolio of $1.6 billion.

As you might imagine, that figure pleased the Eugene-based CU's management and board.

A related figure that pleased both groups a bit less, or at least put them in a contemplative mood: A whopping $1.1 billion of that portfolio—70 percent of it—was in auto loans.

What did it prompt OCCU's leadership to put under the microscope in the months that followed?

For starters, it caused the CU's leaders to look at diversifying the $1.7 billion organization's loan mix. It also drove them to tackle a few other tasks they believed would also benefit its membership.

According to President/CEO Ron Neumann, CIE, a CUES member, the aim was "to lessen our concentration in vehicles while improving yield."

That improved yield would then strengthen the credit union's earnings as well as its net worth ratio, all while keeping liquidity and credit risk in check.

"We thought maybe we should have the balance sheet that we desire rather than the one we've been given" as a result of the CU's strong vehicle-loan growth, he explains.

How did Neumann and his team achieve that feat? Keep reading to find out.

THE BALANCE-SHEET PROJECT

For a bit of background, here are the board-sanctioned objectives the CU set out to accomplish in the early days of 2017:

- Realign the organization's loan mix to address the aforementioned concentration in vehicle loans.
- At the same time, reduce credit loss exposure and lower provision costs.
- Improve the CU's loan yield by "swapping" the auto loan portfolio into other higher yielding loan categories, too.
- Further enhance net interest margin by managing deposit growth and cost of funds.
- Ultimately drive higher loan revenues, concurrent with balance sheet growth management, into improvements to net worth and return on average assets for subsequent investment and growth.

Neumann and colleagues like CUES member Greg Schumacher, OCCU's chief financial and administrative officer, didn't just dive into these objectives, of course. They spent the early part of the year preparing. Those two or three months of modeling were key, Neumann says, "because you need to understand where you're at and where you're going before you can come up with how to get there and by when—and at what cost, too."

OCCU has a "robust business intelligence group that ... looked at the profitability of our various tranches and how we might participate out some of our balances in order to free up liquidity," Schumacher explains, "so we could then move those existing loan balances into other loan products."

All of that modeling, he adds, was "designed to prompt our thinking around how much we should have in auto loans and participations, and how much we should expect coming out of the auto book into mortgage and business book."

Within 90 days, Neumann says, "we had completed our modeling, and we had concluded that we were going to move in the right direction, that those moves supported the vision of the board, and that the board members themselves were supportive of the moves we were planning to make."

By the end of the second quarter of 2017, Schumacher shares, the CU was engaged in several "very deliberate activities to begin the process."

INDIRECT LENDING STRATEGIES

The activities Schumacher refers to here went beyond rate-sheet pricing changes designed to curb auto loan originations.

One example: Neumann says a critical area for the credit union was "to build our muscle around price elasticity as it relates to indirect lending."

What you're trying to do when you test price elasticity, Schumacher explains, "is drive indirect volume down to the extent that you can then replace those dollars with mortgages or other business but still remain a premier indirect lender within the market and also continue to serve your members."

"We did a lot of testing," Neumann adds. "We tried different pricing strategies. In some cases, we even raised the price—only to see demand increase. Which naturally made us think: *That's interesting*. It definitely wasn't what we expected."

Another "muscle" Neumann, Schumacher and their colleagues worked out in the months that followed their decision to restructure OCCU's balance sheet: loan participations.

"We're a strong originator," Neumann says. "Which means we sometimes originate more auto or RV loans than we'd like. But that's our job, right? To serve our members. So we asked ourselves: What can we do with that? How can we manage or control that side of the business, rather than exit it completely or grossly change all of the relationships we've developed over the years?"

The CU's response was to retain the servicing on those loans, but sell some of the excess origination. "That way," Neumann offers, "we could keep the member relationship and also diversify our balance sheet."

Succeeding at that was easier said than done, according to Schumacher. "We need to make these pools attractive enough for the investors to buy into, while at the same time we need to retain pools on our balance sheet that are attractive to us. The modeling we did allowed us to be really nuanced in terms of what we would sell versus what we would keep," he adds.

All of that hard work paid off in the end, too. "We sold millions of dollars' worth of participations at either par or better," Schumacher says. "At the same time, we retained—in a rising rate environment—those new rate-sheet loans that our elasticity testing told us were profitable in our portfolio."

4 Growth *Questions*

Mike Dionne, SVP/community markets, Americas at Finastra (*finastra.com*), a global company offering financial services software and cloud solutions, discusses obstacles and opportunities for credit union growth.

What are the main barriers for credit union growth?
The primary barriers to growth are not having the proper insight and tools: insight in the form of understanding the needs of the credit union's membership and tools that help the CU reach that membership in the fashion the members prefer.

Credit unions have nearly unlimited growth opportunity with current members. Deepening those relationships represents a significant growth opportunity. Is this member part of a broader household? Where is this household in its financial life cycle? Understanding fundamental elements like these will inform the products and services your CU should be putting in front of members.

How the CU puts these products and services in front of the member is the second component in driving growth. The CU must have the tools to reach its members where and when members require. The most obvious example is in the digital arena. The migration of engagement from the physical to the digital world has been rapid. Has your CU kept up? For example, do you have the means of reaching your member with an informed cross-sell message on the member's mobile device?

How should credit unions think differently about growth?
Historically many CUs have thought about growth in terms of entering new geographies, perhaps with a new branch. While physical locations will remain an essential component of CUs' service offering, they are not always essential to enter new markets. CUs need to think long and hard about the cost and effort associated with building new locations. In the digital era, significant growth can be achieved without a physical presence.

What mistakes do CUs make when they want to grow?
Driving demand for your products and services is a big part of growth. However, responding to that demand in an expedited manner is essential for achieving growth. We've seen a number of credit unions develop new lending campaigns with strong response from their membership. But the campaigns fell short of expectations as the CU did not have the infrastructure in place to respond with timely decisions and fund the loans.

What are some positive CU growth stories you have seen?
Consumer's Credit Union (*consumerscu.org*) in Michigan fueled substantial growth through a creative program called Consumers@Work (*consumerscu.org/businessservices/atwork*). Partner companies of Consumers CU invited the credit union in to educate employees with the intent of improving their financial well-being. Not only did this lead to a better educated consumer, it helped Consumer CU grow deposits and loans.

There is no one path to growth. The best day-to-day practice is simply a matter of educating yourself on the various paths your industry peers have taken.

MORE ON GROWTH

Mortgage Market: What Credit Unions Should Expect in 2019 (*cumanagement.com/1218mortgage*)

Getting Smarter with Student Loans (*cumanagement.com/1118studentloans*)

CUmanagement.com "Growth" archive (*cumanagement.com/growth*)

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(*cues.org/sgi*)

MORTGAGE AND BUSINESS LOAN GROWTH, TOO

The strategy Neumann, Schumacher and others at OCCU employed to restructure and grow the organization's balance sheet went beyond improving their indirect lending efforts.

They also moved some of the credit union's auto loan dollars into other "higher yield, lower credit cost buckets," as they call them. Specifically, they moved them into mortgage and member business loans. (And most of those member business loans were in commercial real estate.)

"On the mortgage side, we purchased some mortgages," Schumacher explains. "And we purchased some that were in our market, so they were member-servicing as well."

The CUs' leaders also were able to "put more of the mortgages we originate into our own portfolio," he adds, "thereby increasing its (mortgages) percentage of the pie on our balance sheet."

For Schumacher, one of the keys to the CU's growth in this area was "opening up the gates for the folks in the mortgage area to serve members more aggressively than they had in the past."

Granted, the reason they could open those gates as wide as they did was because of the "newfound liquidity to do so coming off our new auto strategy."

Also helping matters: "Our marketing, member experience and channel folks created some very important digital opportunities around first-time homebuyer, mortgage education and referrals," Schumacher adds. "If you look at our mortgages today, for example, I would say a substantial number of our referrals come from those digital channels. And that's a testament to what those folks have done ... to drive that business."

As for the member business side of the equation, Neumann says that "while we've done it for many, many years, we didn't do so in a material way" until early 2017. Since then, OCCU has "very carefully built a portfolio out of commercial real estate."

Schumacher suggests a lot of the growth here has come as a result of "some important vendor and partner relationships, not unlike what we do on the indirect and participation side.

"As we sought to drive our balance sheet restructure and net worth growth, we employed both auto participations and volume reduction activities," Schumacher adds. "We leveraged two key partners, Raymond James (St. Petersburg, Florida, *raymondjames.com*) and Catalyst Corporate Credit Union (Plano, Texas, *catalystcorp.org*), plus our participating CUs, and especially valued our repeat buyers. In addition, our indirect auto dealer partners embraced and accepted our rate sheet changes and volume management efforts, while still providing volume at levels we desired. Our outcome could have been different absent this type of response."

DIGGING INTO THE DETAILS

How exactly have the moves detailed above as well as others helped restructure and even bolster OCCU's balance sheet?

For starters, Neumann and his team moved $119 million out of vehicle loans and into mortgages. That represents a 53 percent increase in the mortgage portfolio since the end of 2017.

And they moved $27 million from the credit union's auto loan "bucket" to its member-business loan one—a 140 percent increase in MBL balances, according to Neumann.

All of that "swapping out" allowed OCCU to reduce its concentration in auto and RV loans from 70 percent to 59 percent in just 11 months.

That last accomplishment, in particular, has thrilled both the CU's executives and board members. "To make a change like that is significant," Neumann asserts. "We've participated $350 or $360 million in 2018 alone," he adds. "Those are some very serious figures."

OCCU's growth in net worth ratio also could be labeled as serious. "We began 2018 at 8.38 percent net worth, and that's increased nearly 100 basis points since," offers Neumann. As of late November, that figure was at 9.33—and he expected it to inch up even a bit more by the end of the year.

LOOKING AHEAD

Neumann and Schumacher have a similarly rosy outlook for 2019.

"We are very happy with what we've achieved thus far, but we also see 2019 being similar to 2018 and 2017—in that we'll continue to work on refining our balance sheet," Schumacher says.

In other words, they'll continue to de-emphasize the auto portfolio. That said, after all they've done, "there's not as much room to do that now," he adds. "And with the market potentially slowing down, there may be less room to be aggressive on the mortgage side in 2019, too."

Where will OCCU look instead for growth? Home equity lines of credit are one possibility. "The refi business has kind of gone away, with rate environments staying in the upward trajectory, but there's still opportunity to build a HELOC book. We're looking at that," Schumacher points out.

They're also looking at building the organization's (relatively small, at the moment) credit card portfolio.

In general, though, Neumann expects to do "more of the same—while making some nuanced changes to our strategy that will help us move past the fundamental success we've seen so far and move toward further optimizing our balance sheet."

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FINASTRA

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Driving Stellar Service with Workflow Automation

Dupaco Community Credit Union automates processes to ensure compliance and focus on members.

The Challenge

Dupaco has grown into one of Iowa's leading credit unions. Along the way, their mission has always remained the same—to improve its members' financial position and build valued relationships with the community it serves.

In the last few years, they've been focused on growing into new areas and expanding their range of services while continually engaging existing and new members. As Dupaco grew, it needed to maintain the high level of service that its members had come to expect.

Keith Chaston, IT Operations Supervisor at Dupaco, says, "Whether it's opening a new account or issuing a mortgage loan, the services we provide often involve many different steps. As we took on more business, we wanted to avoid weighing staff down with more administrative work. Our teams should spend most of their time face-to-face with members, not hidden behind a computer. To free-up more time for one-on-one member interaction, we looked for a way to automate as many routine tasks as we could."

The Solution

Since 2010, Dupaco has counted on Fusion Phoenix from Finastra for its core technology. The organization decided to build on this foundation with Fusion Phoenix's workflow manager to automate key processes. "We were one of the first credit unions to go live on Fusion Phoenix's workflow manager, and were closely involved in the development process with Finastra," Chaston said.

Dupaco has harnessed the workflow manager to streamline several workflows, including payroll processing and transfers. Additionally, the organization automated Pay Pause requests—a popular promotion allowing members to pay $25 to pause a loan payment without incurring penalties. Dupaco typically runs the promotion in December, processing between 10,000 and 15,000 requests.

Many members deduct loan payments from their salary, and if they wanted to pause a payment, the payroll team had to manually remove the loan from distribution so that the funds would not be deducted, then fill in a new service request to return the loan to distribution. This process is now completely automated using workflow in Fusion Phoenix.

"In the past, we had a team of 10 to 15 people managing Pay Pause requests, whereas today we need just 3 people to handle the same work," comments Erik Chaston, Workflow Developer at Dupaco. "Fusion Phoenix's workflow manager has made our Pay Pause service much more efficient and profitable."

Newfound Insight and Control

Improved workflow management has also enabled Dupaco to track process changes in a more straightforward and consistent way. Previously, as employees worked through a certain process, they used paper checklists to track actions.

Now, Fusion Phoenix's workflow manager guides teams through pre-defined steps and provides a complete record of all actions taken, helping management to ensure that all tasks are completed properly and offering a full audit trail to strengthen compliance, giving them much better visibility and control of end-to-end processes.

Greater Efficiencies, Better Service

By automating key workflows, Dupaco empowers its team to work more productively and minimizes the risk of process errors and inconsistencies.

"When you have people manually handling a process and entering data into systems, it opens up room for errors to creep in," remarked Keith Chaston. "With Fusion Phoenix's workflow manager, we're reducing reliance on dual data entry and manual work and we feel confident that processes are running flawlessly." With employees free from tedious and time-consuming tasks, they have more time to devote to one-on-one interactions with members.

Growing Strong

As Dupaco adheres to its mission, the new efficiencies delivered by Finastra's technology will help the organization keep tight control over costs. "The workflow manager in Fusion Phoenix helps us maintain lean operations as we expand into new markets and welcome new members," says Erik Chaston. "We've been able to redistribute resources, as improved efficiencies have enabled us to move existing employees into different roles, which has been a great help in keeping costs down. Fusion Phoenix's workflow manager is a positive investment for member engagement, efficiency and accuracy."

Dupaco Community Credit Union automates processes to ensure compliance and focus on members.

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GROWTH IS IN THE NUMBERS

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19%
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+12%
CUs using CPGS vs others

BENEFITS:

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CARD PORTFOLIO GROWTH SOLUTIONS

With Card Portfolio Growth Solutions, we've created implementation-ready solutions to help you maximize your credit card portfolio. Credit unions that have participated in the program have grown their portfolios by 19% year-over-year on average. This is 12% higher on average than credit unions not using Card Portfolio Growth Solutions. This program incorporates six full campaigns, including an annual Credit Line Increase Program (CLIP), that drive utilization, acquisition and retention.

Visit us at **www.trellance.com/growth** for more information.

CASE STUDY

TBA CREDIT UNION REAPS THE BENEFITS OF TRELLANCE'S CLIP

STAYING "TOP OF WALLET"

As the financial industry becomes more competitive and consumers continue to get multiple credit card offers, credit unions must maintain relevance by offering attractive card products and doing what is required to stay "top of wallet." One of the strategies that has worked for many credit unions and is encouraged by payments executives is conducting an annual credit line increase program (CLIP). "By using the data from card portfolios, credit unions can reward members with the limits they have earned based on their utilization and payment history," said Ann Farrell, Director of Portfolio Growth at Trellance. "This will give members more spending power, reduce voluntary attrition and enhance cardholder loyalty," she added.

GROWTH IS IN THE NUMBERS

Trellance has been assisting many credit unions to realize growth with their CLIP, which is packaged within their Card Portfolio Growth Solutions (CPGS) and a-la-carte. Also, the fact that it is brand and processor neutral make it accessible to all credit unions.

"We have seen some great results from credit unions that have participated in our CLIP in 2017 and 2018. The balances on the cards that received increases went up by $27.9 million, while the balances on those that did not receive increases went down by $3.2 million," stated Farrell. "We are estimating that we made $2.5 million in additional interest income for the credit unions that participated," she noted. To date, over 100 credit unions have participated in the program.

A VALUABLE VENDOR PARTNERSHIP EQUALS GROWTH

One of the credit unions that has benefitted from Trellance's CLIP is TBA Credit Union, which is located in Traverse City and boasts an asset size of $218 million and 17,000 members. Chase McLennan, Member Service Specialist at TBA, said that before the CLIP they did not have many initiatives to grow their card program and they were looking for opportunities to use their program as a tool to improve member relationships. "After seeing the incredible results other credit unions had with the CLIP offering from Trellance, we decide to use it. It seemed like a no-brainer to look into it," said McLennan. "Trellance was vital throughout the process. If I needed an answer, I was able to get it that day. It really helped to keep the ball rolling and meeting our deadlines," he added.

They increased the limits on over 1000 cards, and with an opt-out rate of only 2% approximately, they increased the overall balances for the qualifying group by +30%.

When asked how other credit unions can benefit, McLennan noted that "The program allows you to optimize and make your card portfolio much more efficient." He added that "Identifying and rewarding your loyal members will put your card "top of wallet" by providing members with additional spending power."

Moving forward, McLennan said his credit union would certainly consider implementing the CLIP again, along with other initiatives that will provide benefits for the credit union and its members. On her part, Ann Farrell notes that, "It is imperative that the credit union couples the CLIP with Trellance's Balance Transfer and Usage Promotions to get the full lift in outstanding balances, interchange, and finance charge revenue, making their card "top of wallet" and increasing the total profitability of their portfolio."

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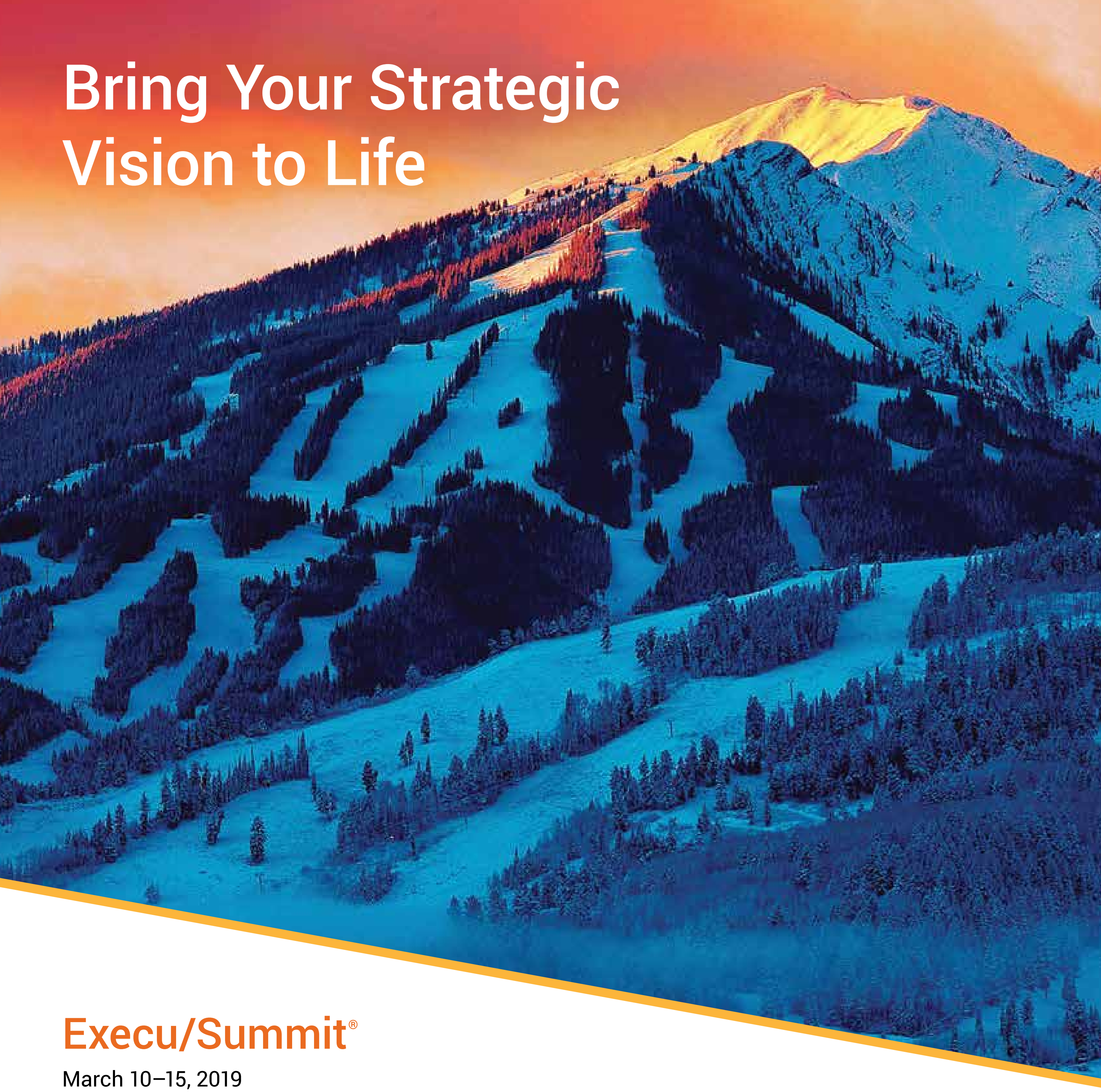

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