Special Report: Lending

Credit Union Management

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What's Keeping Lenders *Up At Night?*

EXECUTIVES FROM CUs AND VENDORS SHARE THEIR TOP CONCERNS.

BY STEPHANIE SCHWENN SEBRING

In researching this article, we identified six key lending worries. Read five of them below and the sixth at *cumanagement.com/052019skybox*.

HOW TO EVALUATE TECHNOLOGY

CUES member Bob Boucher, CCE, VP/lending for $303 million Westerly Community Credit Union (*westerlyccu.com*), Westerly, Rhode Island, and a lending professional for 33 years, says he only worries about things he can't control.

"If you ask what's keeping me up at night, I'd say it's the pace of technological change. The pace is accelerating every day with a new product or tool. Some fulfill a consumer need but, more and more, technology is emerging to attract consumers with the latest 'must-have' feature." (Five years ago, he notes, no one thought, "Hey, I need to apply for a loan by talking to a computer named Alexa.")

To help decide which technology to support with time and money, Boucher asks his team:

- **Will members use it?** If we launch this new technology, will it be something many members use, or will it just be a novelty for a few?
- **What efficiencies will we gain?** For example, will it make processing a loan application faster? Will it delay adding staff?
- **Is the technology secure enough?** Being entrusted with members' personal information is a tremendous responsibility. Boucher's team must ensure a new technology doesn't pave the way for a breach of private data.
- **What is the technology's life expectancy?** Will it last as-is or will it require precious time to keep upgrading it?
- **Is it a competitive advantage or a must-have?** Will the technology provide something our competitors don't have? Or does it offer something required to stay current?

"The monster under my bed is the worry that a new technology will disrupt the industry and our business model," Boucher adds. "Recent history is littered with vacant Blockbuster stores and malls emptied of customers and stores. In a worst-case scenario, could my credit union be next?"

HOW TO BE READY AND RELEVANT

CUES member Ed Michielsen, VP/business banking for $4.8 billion Prospera Credit Union (*prospera.ca*), Abbotsford, British Columbia, worries about CUs staying ready and relevant

While Canadian and U.S. economic trends align closely, they don't perfectly track. "We should

understand there are other economic trends to monitor," he says. "These include the growing number of loan disruptors, decreasing profit margins and the increasing power of artificial intelligence."

Michielsen says most CU business is now captured online. "In our branches, for example, we've seen a 20% annual decrease in traffic for the past two years," he says. "Members are transacting more business online and in new digital formats—including their lending and new account needs. It has dramatically changed the lending landscape, how we compete and where we invest."

Members want everything simple, fast and easy. "Specifically, no consumer expects to shop for a car and not leave without the car—and the financing (or lease). We're not an indirect lender, so auto lending for us has virtually dried up."

The same is true for shoppers visiting retailers like Home Depot. "They visit the store and leave with the financing for their project," he says. "These alternative channels are disrupting, and we must pursue new loan segments (such as equity lending, lines of credit and business lending) to compensate."

Michielsen also worries about the disintermediation of funds. In Canada, the rate on a residential fixed-rate mortgage is now lower than for term deposits in the fall of 2018.

Finally, new technologies like artificial intelligence continue to transform the lending landscape. "We cannot underestimate the impact of AI," he says. "At Prospera, we've partnered with a fintech provider to automate simple credit decisions. ... Partnerships like this have enabled us to better compete and speed matters when a member needs a decision."

Now more than ever, Michielsen says, CUs need to leverage their value propositions. "Because other lenders can offer rock-bottom pricing, ... we must position ourselves as members' trusted advisors and offer flexible, agile solutions."

In the end, success will come from providing the products members want. "By staying ready and relevant and recognizing your value proposition, you can compete in today's changing lending landscape," Michielsen says.

HOW TO KEEP LENDING AND NOT STEP BACK

Tony Boutelle, president/CEO of CUES Supplier member CU Direct (*cudirect.com*), Ontario, California, worries that CUs will let adverse news about the auto market dampen their efforts to do good lending.

"Auto sales were slow at the beginning of the year but showed signs of catching up in March," explains Boutelle. "Also, factors beyond our control, such as the bad [winter] weather, as well as the government shutdown, caused anxiety and, for many in the industry, impacted car sales early in the year." March through May is typically the strong car-buying season, and used car sales were still high as this article ent to press.

"Two out of every three car loans are for pre-owned vehicles," notes Boutelle.

The demand for new technology in vehicles, such as applications and connectivity, is also very real. "This technology is the No. 1 driving force for getting a new car today," Boutelle says. "I liken it to people wanting to 'drive their iPhones,' to have that same technology available in their vehicles that they demand in their phones."

A diversified lending portfolio is essential, adds Boutelle. For example, real estate lending is important, and purchase markets have traditionally been good for credit unions.

Still, auto lending remains a core competency. "A worry is that many top credit unions are lent out and are now in a battle for deposits. If credit unions step back too much on lending, someone else will step in and grab that business. For example, Wells Fargo is back in auto lending and doubling down."

Behaviors are changing, and consumers are now picking their car and their loan before they get to the dealership. They are shopping online, getting pricing and pre-approval for the loan. Credit unions need to be at the top of this online sales funnel and capture the pre-shopping experience, Boutelle says. He advises credit unions to ask: How are we attracting interest from online shoppers? And, what do we need to have in place to capture those interests?

> **"The monster under my bed is the worry that a new technology will disrupt the industry and our business model."**
>
> – Bob Boucher, CCE

HOW TO BE SUFFICIENTLY EFFICIENT

Karen Loftis worries that CUs won't achieve the necessary level of efficiency to best serve members and therefore compete effectively in the changing market. As director of product management for Finastra (*finastra.com/communitymarkets*), Lake Mary, Florida, Loftis says that the length of the lending life cycle matters.

"It is important to think objectively about process improvement and measuring elapsed time for each of the steps in the life cycle of a loan," she says. "The time it takes from beginning to end can make a big difference and there are lots of different places for bottlenecks" to a lender's overall success.

Loftis often speaks with financial institution lenders who think process bottlenecks signify a problem with supporting technology. "But it is not uncommon to find they have not tuned their processes or configured technology to match," Loftis says. "Each lender is working in the way they always have, but with added technology that doesn't necessarily fit seamlessly to the ways they are working."

Technology is the easy part, Loftis says. "Getting people and process moving in the same direction can be harder. With a process-first approach, the supporting technology can deliver metrics that help identify bottlenecks and opportunities for improvement."

When it comes to tackling the problem of efficiency, Loftis isn't joking when she advises her clients to "start somewhere."

"Improving efficiency does not take a complete 'big bang' overhaul," she says. "Make a point of regularly picking up small projects that are causing bumps in the road for your prospective borrowers. Measure the steps and average time of processes and use this as a guide for choosing efficiency projects.

MORE ON LENDING

Another Lender's Worry About the Economy (*cumanagement.com/052019skybox*)

CUES School of Lending™ Sept. 10-12, San Diego (*cues.org/sol*)

"Even something simple—like tuning the configurations between supporting systems so information passes seamlessly and eliminates data entry keying steps—can make a difference and save time," Loftis adds.

Why is efficiency so important? According to Finastra-sponsored research by Javelin Strategy & Research (*tinyurl.com/finastraresearch*), CUs get loyalty through good rates, but they are challenged to deliver fast and easy loan decisions. According to the research, CU members are most likely to choose their credit union for their next loan, yet only 38% of them opened their last loan there.

The big-picture benefits of efficiency include being able to reward members with increased profitability and the ability to reach beyond traditional financial services to serve members from a position of increased understanding, Loftis adds.

"Credit unions hold a unique position of community and trust with their members," she says. "You know the needs of your members because they are exactly that—members. Involving them in designing the experiences that support your products creates a tremendous advantage."

The one-size-fits-all, "fast and easy" experience as defined by a larger bank is not always the best answer for consumers. "I have seen a variety of innovations from credit unions with digital programs that help members identify and prepare to borrow in ways that make sense and set the borrower up for success," Loftis says. They are adding value in much more tangible ways than simply making it easy to fill out an application form."

HOW TO BEST MARKET CHOICES

Stephenie Williams worries that CUs will see loan marketing solely as a pathway to selling their products and services. According to Williams, executive director, acquisition solutions for CUES Supplier member Harland Clarke (*harlandclarke.com*), San Antonio, Texas, marketing also must be used as an opportunity for CUs to enhance member satisfaction by educating members about their lending choices, ultimately providing an exceptional experience.

"Marketing, if done right, addresses the member's desire for fast and easy borrowing with a high degree of likelihood to be approved," Williams explains. "Simply being there is not enough. As consumers are inundated with messaging that pitches hundreds of lending options from traditional and digital lenders, offering products and services consumers need—when they need them—is critical to creating new opportunities for engagement and avoiding missed opportunities."

In the quest for control over their financial lives, members want marketing communications to teach them how to take charge of their financial decision-making and boost their confidence that they are making an informed choice about taking on debt. 2017 studies from Accenture (*accenture.com*) and CMO Council (*cmocouncil.org*) show account holders are open to digitally driven offerings with practical value—38% would like their financial institution to help with major purchases by sending relevant information in real time. And 42% want their financial institution to send them information about services exactly as their need arises.

A number of sophisticated marketing techniques are available to aid credit unions in targeting offers to specific member groups, but consumers have the power, Williams underscores.

"At the end of the day, there is free will in any buying process," she says. "As such, credit unions should market choices rather than a single offer at a single point in time. This approach recognizes the value of modeling to identify [members'] propensities but doesn't blindly apply modeling for propensity to borrow—use added insights, such as only offering home equity lines of credit to members who own a home."

Further, in the battle for loans, Williams says, credit unions need to look beyond conventional marketing campaign tactics and adopt an "always-on" or "trigger-based" loan marketing philosophy. "Always-on" means marketing without ceasing, giving members an easy way to access, review and accept pre-qualified offers. Trigger-based means that the credit union is ready with an offer when it knows the member is shopping for something that requires a loan. In either case, the credit union has the opportunity to help with major purchases right when the need arises, fulfilling that consumer expectation.

It used to be that members turned to their credit unions for all things financial. Now, they have a wide variety of options for financial services. Therefore, it is up to each credit union to convince its members and prospects that it is relevant—that it "knows" them and has their best interests in mind.

Keep in mind that consumers actually like hearing from their financial institutions, Williams advises. "Regular communications are necessary to improve member awareness and message relevance," she says. "Using 'always on' and trigger tactics have become best practices in financial services. Members expect it."

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

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Lending 360 Upgrades Southwest Airlines FCU's Lending Experience to First Class

New technology systems always make at least some employees feel apprehensive. That's understandable; most people don't like change.

The $555 million Southwest Airlines FCU kept this in mind as it prepared to launch the Lending 360 loan origination system (LOS) two years ago. To minimize that fear, the Dallas-based credit union had its lending staff participate in testing the system before its November 2016 go-live day.

"We created templates and gave them 14 different products to test," said Sharon Baker, SVP of Organizational Development and Operations. "We assigned two to three per week. Not only did they help with testing, they learned the system in the process."

Lending 360 is such an intuitively designed loan origination system, Baker added, employees were only provided with a simple flow chart and received no initial training up front. And yet, she said, they were able to process loans immediately during testing.

"By the time they went into classroom training, they were able to focus on ways to optimize their use of the system," she said. "The most common response I received from staff after the launch was 'Is that really all I have to do?'"

Southwest Airlines FCU had been using a loan origination system, offered by its core system provider. When it was announced that the system would be sunset, the credit union decided to conduct an LOS search that included third-party vendors.

Southwest Airlines FCU had typically met or exceeded its loan growth goals, so it wasn't only looking for a system that would boost loan production. The credit union was also seeking better lending efficiencies, more secure delivery, streamlined policies and procedures and relief from pain points caused by poor system integration.

Not only did the credit union achieve all those operational and compliance goals, it also significantly exceeded its annual consumer loan growth budget of 6%, achieving over 16% growth for the last two years. In August 2018, Southwest Airlines FCU funded $17 million from 969 applications, its highest funding month in history. That figure includes $3.3 million funded exclusively by the credit union's Ebranch loan officer who handles online applications collected through Lending 360.

That's pretty remarkable for a credit union with a field of membership spread across the country that's always on the go, thanks to its primary airline sponsor.

Adding e-signatures through DocuSign was a real game changer, Baker added. Prior to transitioning to Lending 360, staff would send a secure email to members with loan documents as attachments. Members would then have to print them out, sign them, scan them and securely email them back or send them via snail mail. Making efficiencies even more challenging was that loan documents didn't integrate with the old LOS, which required staff to do manual calculations in order to approve and process loans.

"It was a big convenience and speed issue for members," Baker noted.

Now, with Lending 360, loan processing time has been cut down to as quickly as five minutes on average. The system's integration with the credit union's optical system also eliminated a full-time employee position solely dedicated to scanning docs into the LOS. That employee is now being utilized elsewhere and provides greater value to members.

Loan decisioning is also more consistent with Lending 360. Southwest Airlines FCU utilizes L360's decision manager feature and uses auto decisioning to approve about 30% of all loans. The credit union plans to further automate the decision process by adding Lending 360's Decision Challenger later in the year.

Lending 360's ability to grow as the credit union grows and quickly and easily provide system updates were also important features to the credit union, Baker added.

Finally, Southwest Airlines FCU appreciates L360's structured workflows and built-in reporting for quick management reviews. The credit union has found significantly fewer errors and increased communication among employees within the system, without having to toggle over to email for approvals.

"Our member surveys have been very positive," Baker said. "Members have told us that the loan process is easy, our loan officers are wonderful to work with and the overall process is now painless."

Discover more about our Consumer LOS at **CUDIRECT.com/Lending360**

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BY HARLAND CLARKE

A nearly century-old, Northwestern credit union with more than $1 billion in assets sought an efficient and cost-effective way to increase loan growth throughout its entire portfolio by marketing multiple products at one time.

THE CHALLENGE

The credit union's marketing team was small, so it was difficult to effectively manage large-scale, multi-product loan campaigns, forcing them into single-product, one-off campaigns that failed to achieve loan growth goals.

"We were marketing loans only one at a time, because that's all our marketing department could handle," says the credit union's marketing specialist. Attempts to increase response by offering special rates and financial incentives only proved costly to its bottom line. "It was costing us money to get members to come in. ... We were finding it difficult to achieve the results we were looking for." In addition, the credit union's inability to prescreen members and extend targeted offers resulted in poor quality leads. "It was expensive, and we didn't necessarily know how qualified members really were."

THE SOLUTION

"We were looking for an automated solution that would address all our consumer lending products at one time. LoanEngine checked all the boxes," the marketing specialist says. Due to its successful relationship with CUES Supplier member Harland Clarke (*harlandclarke.com*), the CU chose the proven turnkey solution, LoanEngine™, which delivers multi-product, recurring prescreened offers for auto, credit card, personal and other consumer loans. "We can't afford mistakes," the marketer says.

Robustness, affordability and manageability were important factors in the credit union's decision to choose LoanEngine. "Because it's Harland Clarke, we knew it would be managed to the degree that we require," the marketing specialist says. "LoanEngine was a no-brainer. We were able to attract members who were genuinely interested in those products."

The advanced analytics used with LoanEngine enabled the credit union to send eligible members highly personalized loan offers through multiple channels—online, direct mail, mobile, email and branch. Members could access and review multiple preapproved loan offers and accept from anywhere, 24/7. "Once a campaign launches, it's good to go." LoanEngine's highly efficient automated design freed the credit union's small team from the responsibilities of managing a comprehensive multi-product marketing campaign.

THE RESULTS

11%	Response Rate
$67	Million Loans Funded
29%	Increase over Previous Year

"Overall, our lending volume has increased incredibly," says the CU's marketer. The credit union's LoanEngine campaign produced a remarkable 11% response. "Our consumer lending department was flooded with inquiries. We had to increase staffing and restructure processes during active campaign periods."

Branch staff loved it, too. "LoanEngine absolutely impacted our branch staff's ability to cross-sell," according to the marketing specialist. "Knowing a member is prequalified makes the cross-sell conversation so much easier." LoanEngine's performance not only helped the credit union tackle top strategic goals of efficiency and loan portfolio growth, but increased the value of a successful relationship with Harland Clarke that has grown through more than a decade of trust and teamwork. "It's been wonderful," the marketing specialist says about working with Harland Clarke. "They understand our needs and are able to make changes quickly and easily—which is the nature of our business."

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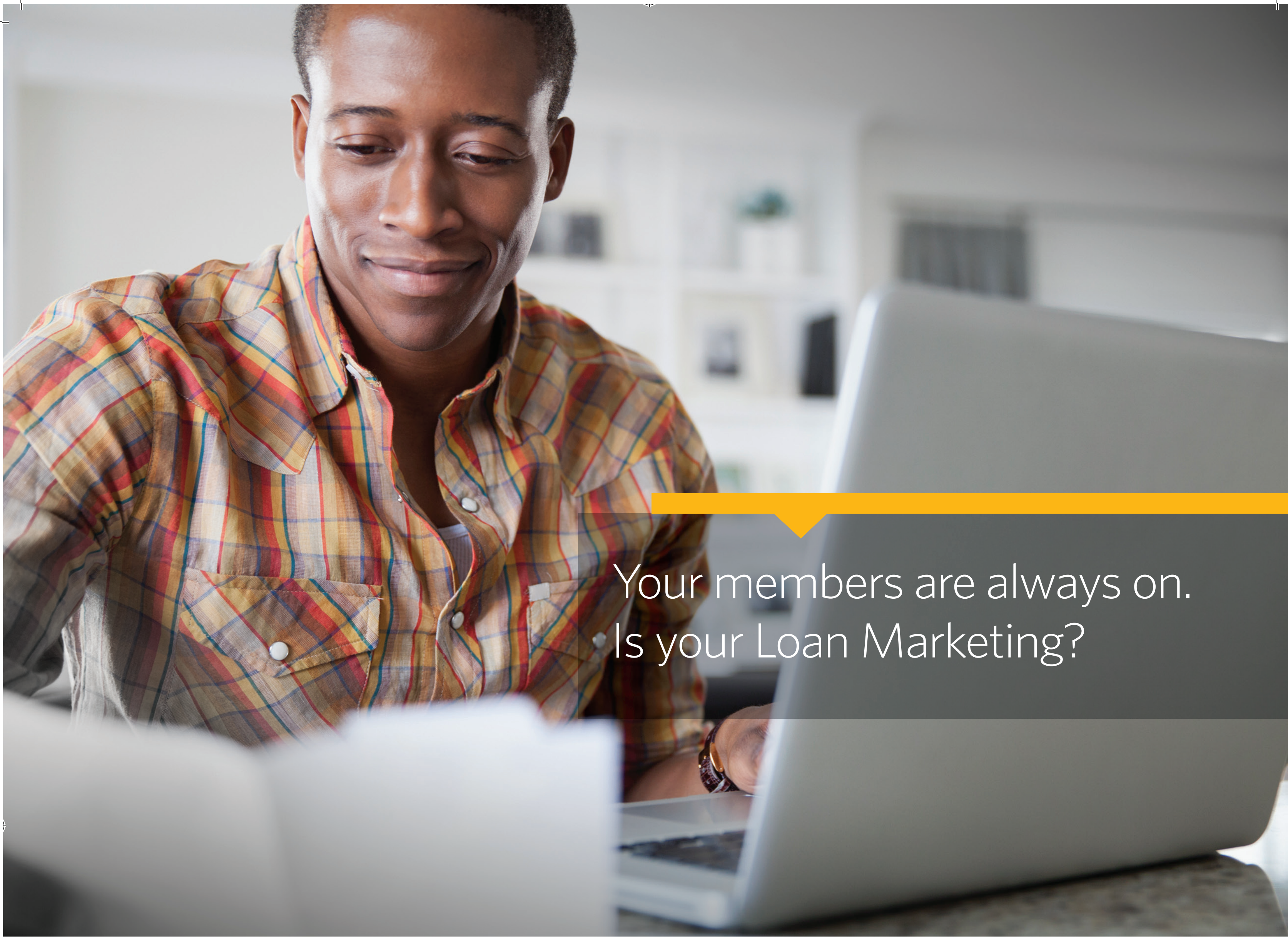

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GUARDING AGAINST SILENT ATTRITION: STRATEGIES FOR BEING THE GO-TO LENDER FOR ALL YOUR MEMBERS' BORROWING NEEDS

While low rates and favorable terms were once enough to keep credit unions top of mind, today's member expectations are driven more by speed and convenience in a world that seems to get busier day by day.

Javelin Strategy recently conducted research to identify why members may look elsewhere for their lending needs and what can be done to address this in comparison to large banks and community banks.

The white paper, sponsored by Finastra, looked at the relationship between members and their primary financial institution, focusing on the cause and effect of digitalization, competition and technology as key drivers for why members don't engage with their credit union for all their lending needs.

Specifically, the research found while credit unions have the benefit of loyalty from low rates, the inability to offer the same fast and easy lending experience as larger banks could be costing them.

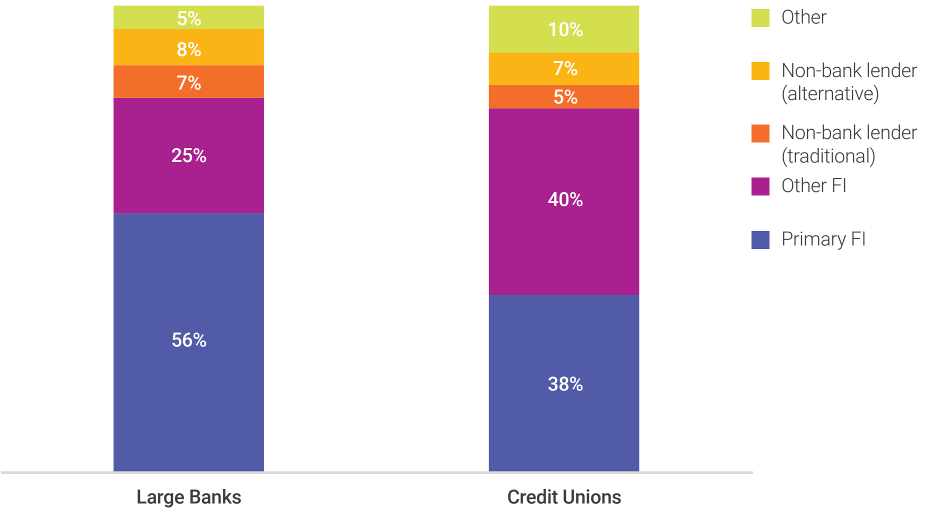
Figure 1 below shows that members were only 38 percent likely to select their primary credit union for their lending needs—that means roughly 6 out of 10 credit union members are looking outside the credit union elsewhere for a loan.

While members were primarily concerned about low rates and terms, 20 percent also cited a fast and easy lending experience as important. Technology-enabled capabilities like eSignature, digital loan applications or other functions that allow members to perform their banking from outside the branch were table-stakes for today's borrowers.

Manual processes and disparate systems are not good enough for long-term growth and may instead lead to faster attrition for members that seek digitally-driven experiences.

With growing competition from other financial institutions, technology disruptors and retailers looking for a piece of the action, it's more critical than ever for credit unions to stay ahead of the latest technology to improve operational efficiency as well as provide a better overall member experience through automation.

More Than Half of Credit Union Members Look Elsewhere for a Loan



How to Avoid Silent Attrition

1. Use digital channels with technology-enabled capabilities such as eSignature and online applications
2. Leverage automated data entry and workflows to speed up the decisioning process and provide members real time updates
3. Create a culture of continuous improvement with a team that looks at process and member experience to evaluate and act where necessary

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The cost of fintech has become more affordable in recent years, providing credit unions a platform for long-term success and to level the playing field compared to larger bank counterparts. Internal process improvement and a commitment to continuous improvement and self-evaluation is the surest path to future success.

Learn more about how Finastra can help your credit union grow and transform by leveraging automation to provide a faster, more convenient member experience, improved internal processes and reduced risk. Learn more at finastra.com/lending-cues-june

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