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Special Report: Growth

Credit Union Management

GROWING WITH MEMBERS IN MIND

Three credit union CEOs share their journeys.

PLUS

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THREE CREDIT UNION CEOs SHARE THEIR JOURNEYS.

BY STEPHANIE SCHWENN SEBRING

We recently asked three CUES member CEOs if they are excited to grow their credit unions—even to lead their organizations to double in size. And they are. But what most inspires the growth efforts of these three leaders isn't economy of scale or a larger market share. It's the opportunity to serve more members well.

LIVING A SERVICE CHARTER

When CUES member Jason Kostura became CEO of $131 million CACL Federal Credit Union (*caclfcu.org*), Pottsville, Pennsylvania, in 2012, he knew the CU had growth potential—and that it could make a bigger difference in its community.

"We've had a low-income designation ... but didn't use it," notes Kostura. In 2012-2013, "we changed our philosophy from a typical conservative model (competing for A/A+ loan paper) to embracing the communities we serve, including the underserved."

Also undertaking an outside-the-box ad strategy—establishing relationships with area businesses and auto dealers—and focusing on such less typical loan products as older-model used car loans, the CU has seen exceptional growth.

The strategy was to double in asset size every five years while maintaining an 85% to 90% loan-to-share ratio and a net worth above 10%. From December 2013 to September 2019, Kostura notes, assets doubled to $131 million from $62 million.

Loans to deposits and return on assets increased accordingly, resulting in higher-than-market deposits. All this occurred with no mergers, new branches or charter changes—but required a lot of training.

"We spend five times more on education and training than credit unions our size," Kostura notes. "It was essential that everyone understood risk and how to properly read it. The key wasn't that we took on a lot of risk and did 'X' to mitigate it. The key was we educated our staff/board to understand what is real risk and what to avoid."

Kostura offers this advice on growth: Focus on loans, income and improving efficiencies as well as assets. For example, CACL FCU strives for a loan-to-deposit ratio of 90% while increasing its loan yield.

"Some credit unions focus on deposit growth and have no idea what to do with the deposits once they come in. There must be a plan for smart growth and how to loan out those funds," he says. "If your loan-to-deposit ratio falls below 60%, stop growing assets. Establish clear steps but incorporate member needs and include your vision statement."

Compliance is crucial, he adds. "The NCUA frowns on anything outside the 'normal.' Be ready to have discussions if you're growing faster than your peers. Overwhelm auditors with data and tactics to show you're not doing anything incorrectly or rashly.

"As leaders, look within yourselves as well," he continues. "Ask if what you're doing is profitable, and how and when you will know if the plan isn't working. If things go south, what is the next step? Do you and your board understand that what you are doing may be potentially risky, and does everyone assume that risk? Detail these discussions in board minutes."

MERGERS FOR MEMBERS

The maxim of $850 million Marine Credit Union (*marinecu.com*)—"where you're more than a credit score"—resonates with members and has helped foster a culture of growth and member service at the community-based CU in La Crosse, Wisconsin.

CEO Shawn Hanson credits years of expansion to the CU's aggressive mergers and acquisitions strategy, which is central to its business model. From 2013 to 2019, the number of checking accounts increased from 28,828 to 53,341; member equity (net worth) increased from $45.9 million to more than $93 million; and shares increased from $351.9 million to more than $630 million.

"Our M&A strategy is part of our disciplined focus on attacking the constraints in front of us each day," says the CUES member. "Constraints include access to new markets, finding and retaining top talent, and having the financial resources which allow us to execute on future plans."

In 2019, the CU set the goal to double every four years the number of people it helps improve their financial wellness. Success will be measured by members' improved credit scores and savings balances.

Hanson stresses that growth for the sake of growth is not the credit union's goal, nor should it ever be.

MORE ON GROWTH

Growth coverage on CUmanagement.com *(cumanagement.com/growth)*

The Five Levers of Success for Your Credit Union's Growth Strategy *(cumanagement.com/0817fivelevers)*

Strategic Growth Institute™, returning in 2021 (*cues.org/sgi*)

"At Marine, ... we've realigned our top KPIs (key performance indicators) to ... explain how these positive member outcomes create positive financial results. ... This system will result in an even greater impact in our communities going forward."

This cultural shift has had an overarching impact on the strategic plan, now 100% focused on the CU's mission "to advance the lives of its members from a place of financial need to a life of ownership and giving back in their communities."

"We can't possibly help members grow and advance on their own journeys if we're not willing to do the same," observes Hanson. Growth is required to invest in products and technology to reach more people and stay relevant for their evolving needs. The CU is equally committed to career development for team members.

The highest growth levels in the last four years have been in consumer loans and mortgages, especially for underserved members. "We've granted well over a billion dollars in loans (in 2016-2019) to underserved individuals," notes Hanson. "We work hard to open accounts for people others may hesitate to serve. Our M&A strategy has helped us to reach more of the underserved population; in 2019 alone, we helped about 40,000 people improve their credit scores."

BEING MEMBERS' HERO

$670 million Sun East Federal Credit Union (*suneast.org*), Aston, Pennsylvania, laid careful preparations to grow for members' sake.

"Growth drives innovation—and vice versa—but it's serving our members, being their hero and helping them to reach their hopes and dreams that is the overarching goal," stresses CEO Michael Kaczenski, CCE, a 32-year employee of the CU and a CUES member.

Five years ago, Kaczenski reflects, "we asked what we could do to compete better." The outcome was a five-year growth plan to reach $1 billion in assets by the end of 2023.

It took three years of preparation (2015-2017) to ensure financial prudence, continued member care and the proper infrastructure were in place before the growth phase began. The CU also intentionally pulled back on growth, and return on assets was suppressed to less than 50 basis points.

In the first year, the CU set a 10% growth goal for loans and deposits. By implementing new pricing models, lending systems and processes, marketing strategies, sales expectations and a culture of being "heroic," the CU surpassed its initial targets by more than 50%, achieving 16% growth in both loans and deposits.

At the end of 2018, the CU took a step back to re-evaluate. "Our systems (people and resources) handled the growth; however, some systems were stressed, particularly IT," Kaczenski says. "We realized additional technical talent was needed along with improved systems, specifically hardware and networking capacity." On the service side, staff wanted more cross-training.

The outcomes of 2018 affirmed that the CU could grow, but "we needed to do a better job at planning for growth, spotting obstacles and fine-tuning our processes," says Kaczenski. "We added a second board planning session. ... For better growth management, we adjusted our goals down for 2019 to 9.5% for loans and deposits."

Continuing its journey, the CU has set a goal of 11% annual growth for the next five years. "When we establish these goals, we look at what we can do and the options available—as well as what we've accomplished," says Kaczenski. "We know we can grow at double-digit rates, and we build our business plan around it.

"What levers do we need to pull? Maybe it's business lending or mortgages. ... On the deposit side, perhaps it is pulling a CD lever to bring in money to loan out for a nice spread. We have over 50 different 'levers' to hit growth and ROA goals," he says. "As an executive team, we continuously review these levers."

Despite the planning and projections, in the end, Kaczenski says it doesn't matter if the CU doubles in size. "We'll achieve growth if we do it right by our members. It's not ego or a number we're striving for. When we reach our goals, it will be because we've helped our members—that we've been their heroes."

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

Growing Your *Payments Programs?*

We asked Norm Patrick, vice president of Advisors Plus Consulting (*advisorsplus.com*) at CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Florida, for his best answers to key questions about payments growth planning at credit unions.

1. **What are your top tips for developing growth goals for payment offerings?** Growth goals should be clearly outlined—including acceptable parameters, like credit scores—along with developing and actively managing a set of annual strategies that support those goals.
2. **What are the key elements of a credit union payments growth plan?** A growth plan specific to payments will often have a strong connection with a credit union's strategic plan. It is a best practice to develop annual growth strategies for payments that are actively managed and calibrated over the duration of the strategic plan.
3. **Are there such things as too much growth or growing too fast?** Yes. Growth needs to be calculated, managed and overseen carefully. When not effectively managed, growth can be risky. For example, operational risk may present itself if a credit union is not prepared with scale or staffing to accommodate significant increases in payments volume. Additionally, payments growth on the lower end of the credit spectrum may come relatively easily but also may increase credit risk.
4. **What's the top area in which credit unions should try to grow?** Checking/share draft accounts drive significant non-interest income through debit card interchange and other revenue streams. Credit cards continue to provide a great return on assets for credit unions in a highly competitive market. As part of a credit union growth plan, strategies should be placed on the optimization of payments products, including product offering, positioning, pricing and the member experience.

The Impact of Powerful Partnerships on Credit Union Growth

By Glynn Frechette, SVP, Advisors Plus at PSCU

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Across the credit union industry, executives are grappling with how to continue gaining new members and retain and expand current member relationships. Put simply, how do we continue to grow?

From growth strategies focused on optimizing legacy debit and credit card programs to marketing initiatives and more, finding the right formula to achieving credit union growth can be tricky – but it does not have to be. Credit unions of all sizes should consider partnering with a third-party organization with a track record of successfully helping credit unions grow rather than going it alone.

PSCU's industry-leading team of experts at Advisors Plus is dedicated to and solely focused on creating marketing growth campaigns and portfolio, loyalty, contact center and operations optimizations that help credit unions meet their business challenges and grow. Advisors Plus employs a holistic approach in which a dedicated Advisors Plus consultant engages with a credit union at the start of their partnership to understand the credit union's goals and objectives. The consultant then analyzes all available data in order to not only provide recommendations, but also help execute the resulting campaigns from start to finish. Back-end analysis is provided so credit unions can clearly see the return-on-investment of each campaign. In order to meet a credit union's specific goals, Advisors Plus offers a number of subscription plans, ranging from assistance with the essentials to full marketing consulting and execution support. By following this approach and addressing each credit union's unique needs and challenges, Advisors Plus credit unions experienced a 160% higher growth rate (6.07%) year-over-year on average in active accounts over other credit unions across the industry not working with Advisors Plus (2.33%). And that's just the beginning.

Partnering with a third-party organization can also help credit unions achieve balance and dollar volume growth. During the same time frame, credit unions that partnered with Advisors Plus saw balance growth of 6.86%, 20 times higher than credit unions not working with Advisors Plus (0.34%). The credit union industry, excluding Navy Federal, grew 4.8% during the same time period. Advisors Plus achieves this through a stair-step approach in which Advisors Plus experts help credit unions by providing recommendations on how to acquire accounts, activate those accounts and follow up with a balance-transfer opportunity, as well as a credit line increase.

Dollar volume growth speaks to a credit union's ability to achieve top of digital wallet and physical wallet status. Year-over-year, Advisors Plus credit unions experienced 50% higher growth in this category (10.17%) compared to non-partners (6.79%). According to The Nilson Report, all U.S. issuers – including big banks, financial institutions and credit unions – saw a 9.4% dollar volume growth during the same time period. As PSCU reported in its 2019 Eye on Payments study, convenience and ease of use are the driving factors behind a consumer's choice in payment method. Advisors Plus can help credit unions ensure their programs, offerings and services are well-marketed, clearly communicated and easy for consumers to use in order to achieve and keep top-of-wallet status. Additionally, offering a robust rewards program that is superior to other financial institutions can also lead to higher spend among members.

Contrary to what credit union executives might believe, there is a solution for every credit union challenge, whether it is finding new members, retaining current members or expanding existing accounts. Partnering with a third-party organization like PSCU's Advisors Plus is one solution that can bring unmatched value and growth to your credit union.

To learn more, visit AdvisorsPlus.com.

Glynn Frechette leads the Advisors Plus Consulting and Campaign Services organization and is responsible for directing and deploying the full range of Advisors Plus financial and marketing services to credit unions. He has spent 25 years in the financial services industry, specializing in credit union and community bank partnerships.
Advisors Plus is now offering customized solutions that can be tailored to the needs of any size credit union and include both consulting services and assistance with the deployment of campaigns on the credit union's behalf.