

THE CALLAHAN REPORT

DECEMBER 2013

At the Leading Edge of Credit Unions

VOL. 28 | NO. 12



HOW CREDIT UNIONS CAN FORGE A MUTUALLY BENEFICIAL PARTNERSHIP WITH SEGS

STRONG CU-SEG RELATIONSHIPS OPEN OPPORTUNITIES FOR BOTH PARTIES.

BY JON JEFFREYS

EMPLOYER SPONSORS ARE the bedrock of the U.S. credit union industry. Every credit union began with a group of individuals coming together to form a cooperative source of credit — from parishes to factories, school districts to city services — and every employee of the select employee group, or SEG, knew about the credit union and its offerings. Often, credit unions kept office space on the sponsor property, free of charge, so cooperative members could conveniently deposit and withdraw funds, apply for loans, and make loan payments.

The single-sponsor credit union landscape began to change in the early 1980s. An economic recession forced many companies to close or relocate jobs outside of the United States. The industry faced both declining membership and diminishing sponsor generosity. Credit unions trying to strengthen themselves by diversifying typically took one of two routes: They embraced multiple SEGs under the theory that healthier sponsors could compensate for weaker ones, or they converted to a community charter.

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*FIRST*PERSON

Brian Ducharme

CEO, MITFCU



Many credit unions have grown and prospered under a community charter; however, that strategy officially severs the special credit union-sponsor relationship, and with it much of what historically helped the credit union stand apart from competitors. Despite the successes and growing numbers of community-chartered credit unions, the majority of the industry's institutions are available to consumers that meet specific membership criteria. According to data filed on the 5300 Call Report, of the 4,189 federal credit unions today, 3,047 of them reported having a closed-charter membership as of June 30, 2013. The SEG-credit union relationship remains the heart of the credit union industry, but nurturing a successful, mutually beneficial arrangement is far from easy. The strongest SEG-credit union bonds are formed when both the credit union and its SEGs understand each other. SEGs must understand the credit union's mission, how the cooperative works, and why greater employee participation benefits the credit union as well as the SEG. Conversely, credit unions that understand their SEGs and its employees' needs are better at providing appropriate products and services. This kind of comprehensive understanding helps all entities flourish.

HOW YOUR SEGS CAN HELP THE CREDIT UNION

First and foremost, all SEGs must have a thorough understanding of what a financial cooperative is, how it succeeds, and — probably most important — why they should want it to succeed (see below: How Your Credit Union Can Help Its SEGs). If your SEGs don't understand why they should want you to succeed, then they aren't going to be of much help to you. If they do understand the vital role you play in their employees' lives, then you can use them to help grow your membership roster, shore up product penetration, and recruit better-engaged participants for your board and other volunteer initiatives. SEGs present the opportunity to position your credit union in front of a captive audience of potential members that are in physical proximity of trusted friends and co-workers to whom they can turn for a referral. There isn't a better environment for touting the benefits of credit union ownership and participation. You need your SEGs to promote participation



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in the credit union, so educate your SEG leaders. According to the seven cooperative principles, members benefit in proportion to the business they conduct with the cooperative. More participation = greater return.

Which leads to the next point, all SEGs should be comfortable promoting the credit union's products and services among its employees — be it in newsletters, on posters, or during semi-regular lunch and learns. This is an opportunity to reach members during “work” mode rather than “play” mode, which is more conducive to making decisions about financial services and products. So go ahead, promote that revamped mortgage program, auto loan special, or new insurance program. And while you're at it, think about putting a member or two in your marketing collateral. This is the time to make your message heard, and what better way to do this than with a familiar face.

The benefits your SEG relationship provides extend beyond hard numbers, though. Every credit union wants the best board and engaged volunteers it can find. KeyPoint Credit Union in California serves several Silicon Valley companies — think Apple and Google — and is working with its SEG companies to involve SEG employ-

ees in individual committees, such as its Innovation Committee, and in its collaboration and innovation process.

“Many of our members are shaping the future ... we want to tap them for where they are taking technology,” says KeyPoint CEO Brad Canfield. “We are asking them how we can take some of what they are developing in their companies or what they see across Silicon Valley and then project it here internally at KeyPoint.”

HOW YOUR CREDIT UNION CAN HELP ITS SEGS

One of the biggest benefits a credit union offers is its ability to listen and understand the needs of its members. This is because they are local institutions. Their ability to think, plan, and operate locally — whether you define “local” through geographic or common bond terms doesn't matter — is a major competitive advantage for credit unions. They are on the ground. They serve a specific field of membership. As such, they can tailor their products and services to meet the needs of their members like no other financial institution.

You'd be hard-pressed to find a way that better ties the credit union to its members than through being at the center of their medical funding. Many credit unions offer health savings accounts to SEG employees, which offer a safe, speedy way to transfer funds for medical expenditures.

In the same vein, many credit unions are also the go-to institution for retirement planning. As a trusted financial institution that has the seal of approval from employers, credit unions are offering IRAs, annuities, long-term care insurance, and other services that would require SEG employees to wade through a sea of barkers on television and in print to avoid making an ill-informed decision.

Most importantly, credit unions offer products and services that SEGs can promote as employee benefits. Low-interest refinancing on student loan debt for a credit union whose fields of membership required advanced degrees? Check. Home purchasing programs for foreign-born workers seeking the American dream and putting down local roots? Check. Financial literacy classes that help employees reach financial goals create and build a stable future? Check. These are the kinds of benefits SEGs can use as a recruiting tool to attract top talent.

HOW TO FIND YOUR SEG OPPORTUNITIES

Many of the nation's largest SEG opportunities are accounted for, but that doesn't mean there aren't plenty of gems — both large and small — that offer many benefits for the right credit union. Looking to grow your small business services? A small employer might find value in a partnership with a credit union that offers member business loans and reasonable payroll services. Although most small companies will never reach the status of Google or Boeing, the credit union that partners with one that does will go far. Many credit unions serve SEGs that are pillars of the community. Examples include BECU (Boeing), CEFUCU (Caterpillar), and Alliant (United Airlines), but there are scores of others. By serving and developing a close relationship with these companies and their communities, these credit unions have become pillars of the community themselves. BECU, for example, does a great deal not only for its hometown of Seattle but also for the other communities in which Boeing assembles aircraft.

But even credit unions that don't have the size, scope, or resources to achieve widespread recognition among the general citizenry or movers-and-shakers can become a pillar by demonstrating to all SEG members that it stands to help any who join. A credit union whose SEG has been damaged by a natural disaster can offer a special mortgage program. Teachers' credit unions might offer grants to school districts. Any credit union might consider how to deposit paychecks faster or offer loans speedier for SEG members.

For those credit union that serve dozens, or hundreds, of SEGs, figure out what a SEG can do for you and suggest it. For credit unions that serve a group of SEGs in a single industry, figure out what they need that you provide and tout it.

The task is to know your SEG members better than anyone else — whether health workers, teachers, company-jumping tech workers, or mobile military people — and turn that knowledge into products and services that benefit not only the members but the credit union as well. The rapport between a credit unions and its employee groups is based on the understanding that what both entities want is a mutually beneficial relationship — a true win-win situation. ✕

IN PERSON & ONLINE WHERE YOU'LL FIND CALLAHAN

CALLAHAN WEBINAR: DEVELOPING A SOCIAL MEDIA STRATEGY BASED ON RESEARCH

Dec. 3 | Online

Elevations Credit Union uses social media and other forms of referrals to engage current and potential members online. Learn about about how the credit union developed its social media strategy, which channels it considered, and its best practices for actionable results.

Learn more or register online at www.creditunions.com/connect/calendar.

CALLAHAN WEBINAR: BUILDING IN-HOUSE LEADERS WITH THE "X" FACTOR

Dec. 4 | Online

Partners Federal Credit Union develops leaders through a holistic, in-house program inspired by the principals of the Center for Creative Leadership. Its strategy has proven successful for both the organization as well as individual leaders; three senior executives have become CEOs at other financial cooperatives.

Learn more or register online at www.creditunions.com/connect/calendar.

CALLAHAN WEBINAR: CREDIT UNION SEO STRATEGIES FOR GROWTH

A solid online strategy is important during this time of fierce local and national competition. Join Callahan's online strategy manager, Jennifer Rosenbaum, to learn more about what SEO is and why it is important, five things you can do now to improve SEO, how to propagate your SEO toolbox, and more. Rosenbaum will also give a live demo of SEO Moz.

Learn more or register online at www.creditunions.com/connect/calendar.

CUES DIRECTORS CONFERENCE

Dec. 8-11 | Maui, Hawaii

Callahan COO Alix Patterson will speak to an audience of credit union volunteers during an annual conference sponsored by the Credit Union Executive Society. This year's conference agenda includes topics such as strategy development, decision making, and innovation in the credit union industry. Patterson will talk about the credit union of the future on Dec. 9 at 9:30 and 11 a.m.

For more information, visit CUES at www.cues.org/professional-development/conferences-and-networking/directors-conference.

CALLAHAN WEBINAR: EVEN BRANCHES CAN BE BLOGGERS

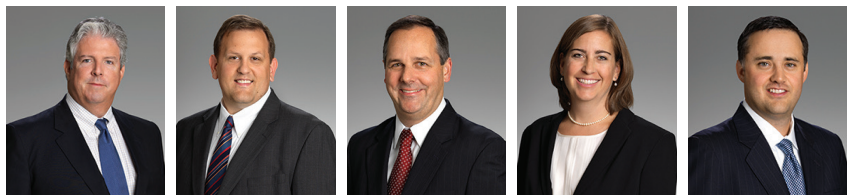
Dec. 10 | Online

Mazuma Credit Union is generating buzz for its new headquarters through a blog and website dedicated to — and written by — the headquarters itself. Learn more about why the credit union chose this unconventional approach, what type of content the blog features, how the blog ties into other social media channels, and what the credit union plans to do in the future based on current results.

Learn more or register online at www.creditunions.com/connect/calendar.

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CU QUICK FACTS

MITFCU

HQ: Cambridge, MA

Assets: \$388.3M

Members: 29,838

12-MO Share Growth: 9.62%

12-MO Loan Growth: 23.02%

ROA: 0.77%

DATA AS OF 09.30.13

HOW TO FOSTER A SOLID CU-SEG RELATIONSHIP

MIT FCU mines mutual opportunities within its select community.

IN 1940, 11 employees of the Massachusetts Institute of Technology (MIT) gathered in the basement of MIT's Infinite Corridor and placed \$5.00 in a strong box to create MIT Federal Credit Union. Since that time, the credit union has grown and diversified with the university, providing services to its affiliates, including Draper Laboratories, Lincoln Laboratories, and Broad Institute. Approximately 15 years ago, the credit union added graduate and undergraduate students to its field of membership and has been named the exclusive provider of financial services to the MIT Alumni Association. Most recently it has positioned itself as a value-added benefit to organizations that are affiliated with MIT's Innovative Ecosystem, a group of like-minded independent life science corporations and business startups that have aligned themselves with MIT by means of research and educational collaboration. All of MITFCU's SEGs have some relation, even if historical, with MIT.

Currently MITFCU has nearly \$390 million in assets and serves 30,000 members from approximately 35 SEGs. It has three brick-and-mortar branches, a 24/7 call center, and a network of shared branching and multiple ATM networks that provide members access to more than 40,000 surcharge-free ATMs. President/CEO Brian Ducharme joined MITFCU 12 years ago.

We take pride in realizing our purpose of "fulfilling the dream and enriching the lives of others" and look to be the provider of financial services to our primary SEG, which is MIT, and to groups relating to it. We continuously strive to position ourselves from inside the community to help the Institute and other affiliated groups in ways that only we can.

An example is when the credit markets dried up during the crisis of 2008-'09. Citibank quickly and without notice pulled out of many private student lending programs across the nation, leaving a vacuum and significant need for many colleges and universities, including MIT. With the cooperation and collaboration of CU Student Choice, MITFCU was able to take on a great deal of the credit needs of MIT students, especially the foreign-born students. Doing so not only helped MIT but also strengthened our relationship with the Institute, and we have made the most of the student loan relationship ever since.

Another example of our work with SEGs

relates to the Novartis Institutes for Biomedical Research (NIBR), a recently formed entity linking 6,000 people around the world. NIBR has specifically established a significant presence in Cambridge and is planning to grow its employee base from 2,500 to more than 5,000 in the next few years. At the request of Novartis, we are now providing our services to NIBR employees in Cambridge. The value of this arrangement is multiple: MIT is able to deepen its already strong ties with NIBR by offering the services of MITFCU; NIBR wins because it is able to offer employees the valuable, no-cost benefit of MITFCU membership; NIBR employees in Cambridge win because they have a close yet globally accessible credit union in MITFCU; and MITFCU wins because it is able to add new members with demographics similar to those of its current membership.

In addition, building on the strength of its connection with MIT, MITFCU bid for and won a relationship as the financial

institution of choice for the MIT Alumni Association. Again, we believe this is a natural fit because of all the other MIT-related entities we serve. The fact that we are now the financial institution of the MIT Alumni Association we believe strengthens the bonds of MITFCU to and among the MIT-related community.

PERSONAL CONNECTION

We at MITFCU are proponents of “getting things done in the middle,” focusing our outreach with our senior managers and having them create touch points with our three dozen SEGs. Our goal is to cultivate relationships with key people in the SEGs, understand one or two unique needs or benefits we can leverage, and then act on those opportunities to deepen the relationship with MITFCU. We know our name gets us to the table, but once we get there we have the agility to create unique programs that respond to a SEG’s distinctive needs, something the competition really struggles with, never mind delivers.

One aspect of our business that sets us apart from the national and global megabanks, which evidently place their attention elsewhere, is our focus on our immediate proximity. We often discuss with a SEG’s human resources department what we could do especially for people relocating to Cambridge in order to work at the SEG. Our SEGs are always looking to attract and retain the best talent, and we know competition for talent in the technology fields is intense. If there is a competitive advantage, we can provide new hires at SEGs with loans, mortgages, or otherwise. By working with SEGs in this way, we help them become more attractive companies to potential hires.

RELATIONSHIP WITH OUR PRINCIPAL SEG

MIT is at the center of our relationship efforts. We continuously reach out and grow our relationship with the Institute by sponsoring community-related events, helping at benefits fairs on campus and at spin-off labs and other SEGs, making ourselves visible on campus, and the like. Our goal is to be the undisputed choice for financial service across the Institute and for all of our SEGs.

For example, MIT offers relocation services and low or no interest rate loans

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This strategy makes it easier to understand what the SEGs are, how they think, what their connections are, and what sort of people their employees are.

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to its junior and senior faculty. We try to truly understand the relationship between MIT and its professors so we can complement the benefits MIT offers, in this case to faculty. When we can leverage MIT’s value-added benefits by positioning our products to help employees take advantage of and maximize them, we provide additional value to ourselves.

MORE SEG-SPECIFIC WORK

Some of our SEG-related work is pretty specific. For example, a recent MIT spin-off is a company that in conjunction with its work on online banking conducts quick surveys on behalf of local merchants offering discount coupons. The company might offer an electronic survey to our members — who, of course, can opt out — on a particular subject. For taking the survey, the member could receive a discount coupon for a local service. The company offers a monetary incentive to the credit union for allowing the survey. The SEG benefits in its business model; the credit union gains some extra income; and the members receive free coupons for discounts at various es-

tablissements — yet another benefit of being a member of the credit union.

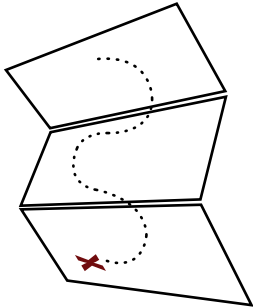
Because many of our SEGs are in technology fields and their employees are highly educated, when we think about our business model and how to provide service and access, we think less along the lines of a traditional sort of commercial account relationship and more along those of the Silicon Valley Bank (SVB). One of the things SVB does extremely well is evaluate and identify high potential startups. Continuously emerging from within the MIT community are highly promising and successful startups that have significant commercial potential. Helping them leverage federal research and other types of grants as well as managing and taking advantage of tax credits is something we feel MITFCU could be uniquely positioned to facilitate.

MIT also offers or is affiliated with a number of innovation and entrepreneurship programs offering advisory services and finding sources for entrepreneurs and startups. These go by the names of MIT Venture Mentoring Services, MIT Technology Licensing Office, MIT Enterprise Forum (a non-profit organization), and the Lemelson, Deshpande, Trust and Legatum Centers. We recently started to talk to and learn more about these services and groups, finding out what their needs are, whom they are helping, and how we might be able to create a link between a concept and its emergence as a commercially viable organization.

OUR STRATEGY

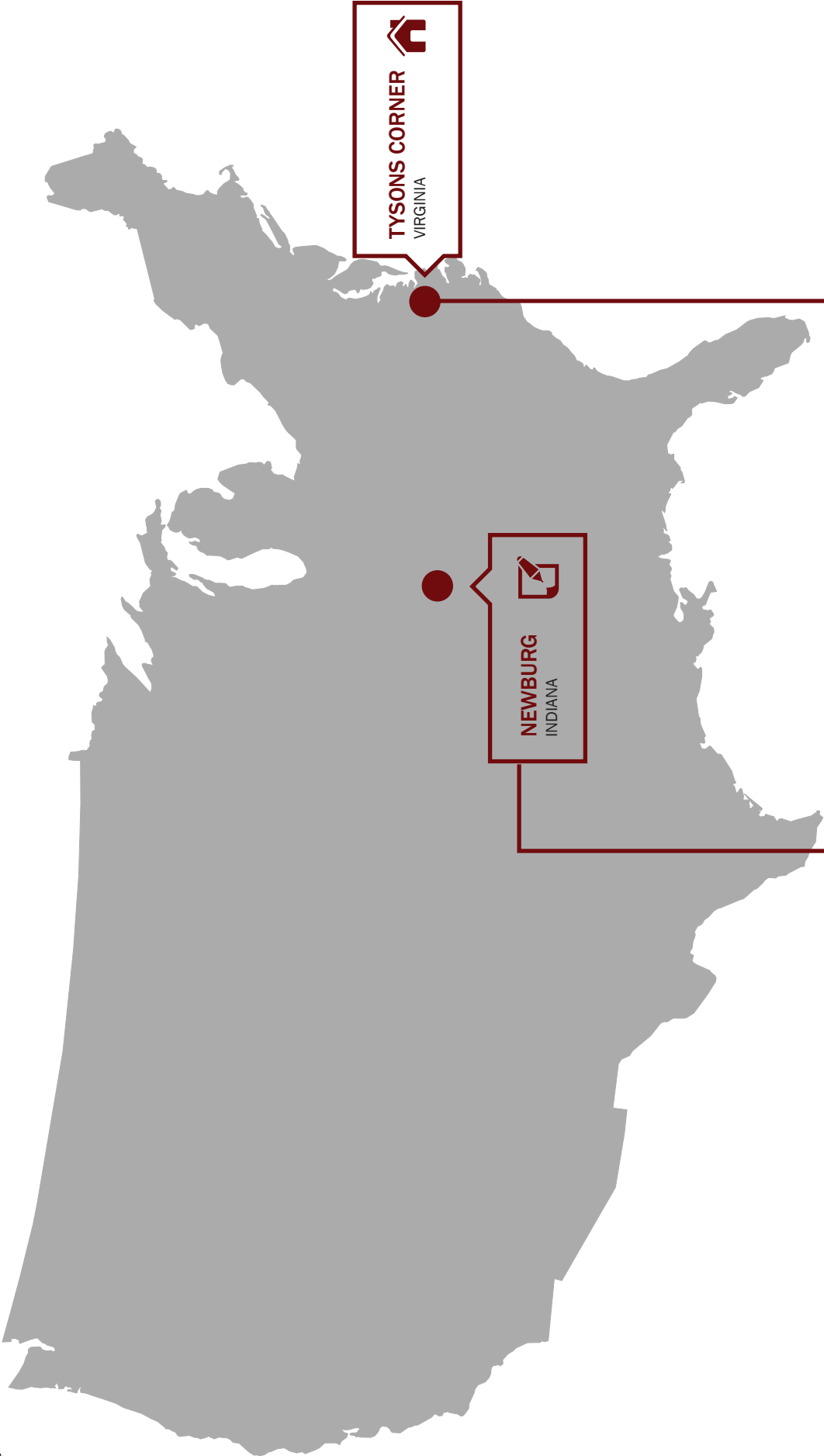
Our SEG focus is specialized, well-defined, and directly or indirectly related to MIT. I don’t believe we are doing anything unique — we do the basics extremely well, better than any other organization in our market. We look to understand, leverage our knowledge, and execute and deliver quickly, consistently, and as efficiently as possible.

This strategy makes it easier to understand what the SEGs are, how they think, what their connections are, what sort of people their employees are, and so on, which allows us to better come up with the kinds of products and services these SEGs will appreciate. In return they understand us pretty well and know how to ask for added value. We believe we are on the right path. ✕



NOTES FROM THE ROAD

What we've learned from where we've been.



CREDIT UNION REAL ESTATE NETWORK (CUREN)



TYSONS CORNER, VIRGINIA

In November, Callahan COO, Alix Patterson attended the monthly meeting of CUREN, which is a regional subset of ACUMA.



The morning sessions were all about Dodd-Frank and the QM rule. Most of the conversation revolved around calculating the 3% fees and points limit and what is calculated in that fee. The mandatory counseling provisions under HOEPA was another point of debate.

I spoke during lunch about overall mortgage trends and local market data, and after lunch, Nizar and Dan from Mortgage Cadence presented on the four metrics — member share, pull through, productivity, and cost to close — credit unions need to track and then use as a starting point to ask more questions. They also talked about “pipeline poaching,” which is when an FI pulls a credit report on a prospective borrower and the credit bureau then sells that info to banks and others who outbound call these borrowers and try to poach the loan.

Richard Koss, a director of economics at Fannie Mae, talked about how the economy and housing are now one and the same — where housing goes, so goes the economy. According to Koss, Fannie and Freddie are building a common securitization platform to standardize contractual and disclosure framework for an alternative secondary market.

Finally, Christine Clifford from Access Mortgage Research & Consulting, spoke about the opportunity in the purchase market. Her key message was that banks are scared about the new QM rules and she expects a massive pull back. Therefore, if credit unions are willing to hold loans on the books and do some non-QM stuff, they have a real opportunity to grab market share in first quarter and beyond until the banks figure it all out.

ON-SITE VISIT WITH HERITAGE FEDERAL CREDIT UNION



NEWBURG, INDIANA

In late October, Callahan writers Aaron Pugh and Drew Grossman traveled to Newburg, IN, to profile \$451 million Heritage Federal Credit Union for the third quarter 2013 installment of the CUSP Anatomy series.



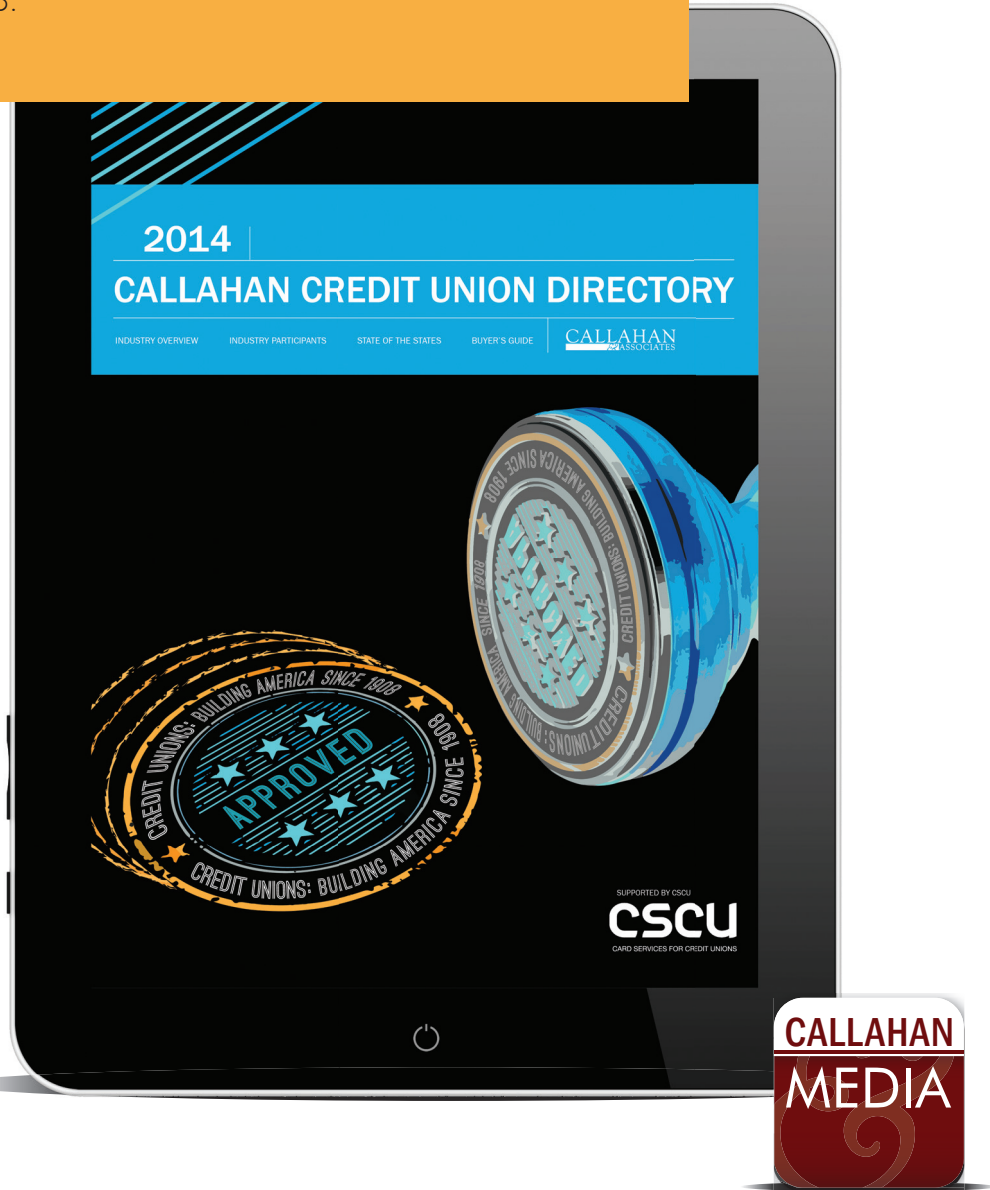
We chose to profile Heritage for several reasons. One, it has captured a piece of a marketplace that consists almost exclusively of other credit unions and community banks. Its winning strategies, which have helped it post 4% annual membership growth and nearly 2% average member relationship growth, include:

- Hosting a regional home improvement show.
- Having the CEO participate in an Ask The Expert television news segment twice a month.
- Requiring all credit union executives and business development employees to participate in community boards, organizations, and philanthropic events.
- Using non-traditional incentives — such as having an exec wash your car or make breakfast — when a team hits its performance goals.

The credit union is also developing new products and repositioning its portfolio to accommodate a changing financial landscape. For example:

- It offers GAP, mechanical breakdown, supplementary auto protection products, and even a six-month vehicle return option.
- It is rolling out MBL in 2014 with a focus on small to mid-size businesses.
- Its low-dollar credit builder loan is geared toward Gen Y and preps these first-time borrowers for larger products like an auto loan or mortgage.
- It uses gift cards for select promotions to encourage members to use any type of plastic with its name on it, thereby building a permanent place in their wallet.

The 2014 CALLAHAN CREDIT UNION DIRECTORY is coming, packed with new leadership perspectives, verified credit union data, and analysis of industry participants. Be the first to get on top of all the latest industry data and trends at its release on November 1, 2013.



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